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ABSTRACT

This report from the General Accounting Office reviews selected aspects of Wisconsin's Aid to Families with Dependent Children (AFDC) program. Chapter 1 describes AFDC and specifies the scope of the program review. In Chapter 2 the potential for increasing child support collections from parents is explored. Actions which could increase collections are suggested. Chapter 3 explores what Wisconsin could do to reduce errors, detect fraud and recover erroneous payments. Specific actions for program improvement are indicated. Chapter 4 identifies seven welfare program options chosen by Wisconsin which tend to expand the size and/or cost of its AFDC program. Options chosen which lower costs and increase efficiency are pointed out. Chapter 5 discusses the effectiveness of the AFDC program income disregard provisions and reviews current pending legislation designed to change the income disregard provisions. Supporting data and studies are provided in nine appendices. (Author/RH)

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Wisconsin's Aid To Families With Dependent Children And Child Support Enforcement Programs Could Be Improved

Between 1966 and 1976, Wisconsin's Aid to Families with Dependent Children caseload growth rate more than doubled that of the Nation as a whole. Legislative, social, and economic changes over these years caused the increase, both nationwide and in Wisconsin.

Wisconsin has taken and is taking steps to improve the management and operation of its Aid to Families with Dependent Children program, but more could be done in the areas of error reduction, detection and prosecution of fraud, and collection of overpayments.

Milwaukee County could do more to improve its Child Support Enforcement program in the areas of

--organization,

--duty reassignments, and

--collection activity.

HRD-78-130
JUNE 22, 1978

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

IN REPLY REFER TO:

HUMAN RESOURCES DIVISION

B-164031(3)

The Honorable Robert W. Kasten, Jr.
House of Representatives

Dear Mr. Kasten:

This is our second report in response to your letters of November 22, 1976, and May 26, 1977, asking us to look into certain matters pertaining to the Aid to Families with Dependent Children and Child Support Enforcement programs in Wisconsin. Our first report, dated August 3, 1977, addressed the matters discussed in your November 1976 letter, except for the matter pertaining to the impact and effectiveness of the Aid to Families with Dependent Children program's income disregard provisions on which a review was then underway.

This report addresses the income disregard matter and the additional matters discussed in your May 1977 letter, some of which were changed or expanded through later discussions with your office. The report also describes actions that could be taken by Wisconsin and Milwaukee County to improve the programs.

At the request of your office, we did not obtain written State and county comments; however, informal comments were obtained on the matters discussed and have been incorporated where appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Gregory J. Ahart
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE HONORABLE
ROBERT W. KASTEN, JR.
HOUSE OF REPRESENTATIVES

WISCONSIN'S AID TO FAMILIES WITH DEPENDENT CHILDREN AND CHILD SUPPORT ENFORCEMENT PROGRAMS COULD BE IMPROVED

D I G E S T

In fiscal year 1977 Wisconsin's Child Support Enforcement program cost about $7 million to administer; about $19 million was collected in child support payments from absent parents.

Milwaukee County had 43 percent of the State's child support caseload in September 1977. Yet the county lacks a centralized child support authority to speedily establish paternity--the average time based on GAO's random sample was 14 months--and to timely and effectively enforce collection of court-ordered payments. County responsibility for child support enforcement is divided in a complex fashion among seven organizations with no single one having the authority to manage. Scattering key program activities among different organizations weakens management and makes delays in case processing likely.

On the 1,300 child support orders issued during the 12 months ended June 30, 1977, from which GAO's sample was taken, from $4.8 million to $5.9 million in child support was unpaid as of December 31, 1977. Since the county had 8,783 child support orders in paternity cases in effect at that date, a still greater collection potential exists. (See pp. 5 to 11.)

The Milwaukee County Board of Supervisors and County Executive could increase child support collections by:

--Centralizing child support program activities under one county agency to facilitate program coordination and management.

--Reassigning the other duties of the court commissioners who hear paternity cases.

--Devoting additional personnel of the family resource coordinator's staff to locating absent parents.

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--Assigning clerk of circuit and county court employees other than paternity trustees to testify in court on support payments owed. This would permit the trustees to devote their full time to collection efforts.

--Directing the family resource coordinator to develop a more systematic, business-like approach to collection activity. (See p. 11.)

Milwaukee County officials generally agreed, but did not state what actions they plan to take.

ACTIONS TO REDUCE AFDC ERRORS

From 1973 through mid-1977, Wisconsin took various corrective actions which reduced its AFDC case errors by about half and its payment errors by 23 percent. Compared with other jurisdictions, Wisconsin's case error rate of 17.7 percent and payment error rate of 4.7 percent ranked twentieth and tenth lowest, respectively, for the January-June 1977 reporting period.

Other actions, including establishing a computerized system to determine eligibility and benefits and requiring recipients to report monthly on their status, are being taken which should help further reduce errors but they will not be completed until 1980. (See p. 14.)

In the meantime, there are other ways Wisconsin could reduce errors. Verification of client-supplied information is optional with the counties; crossmatching recipient-reported income with employer reports to the State of wages for unemployment compensation purposes cannot be done because the employer reports do not show individual's earnings. (See p. 15.)

Also, a recently completed HEW-funded study covering a number of States identified certain action strategies as cost-effective nationwide in reducing AFDC errors. (See p. 17.)

The Wisconsin Department of Health and Social Services could help reduce AFDC errors by:

--Requiring, if cost-effective, all counties to verify eligibility information reported by AFDC applicants and recipients, particularly verifying with employers the income of working AFDC recipients.

--Revising the employer reports to the State of wages for unemployment compensation purposes to show earnings by individual to permit comparisons of recipient-reported income with the employer-reported wages.

--Evaluating the cost-effective action strategies for reducing AFDC errors identified in the recently completed HEW-funded study and carry out, if practicable, those that are applicable. (See p. 26.)

Regarding the first two actions, Wisconsin officials said that:

--While no studies had been made, they did not believe complete verification of applicant information would be cost beneficial. GAO believes a study would be appropriate to identify those aspects of verification that would be cost beneficial, particularly verifying income of working AFDC recipients with employer-reported wages.

--They are considering changing the employer reports to permit crossmatches.

GAO did not discuss the latter action with Wisconsin officials because the study report was not issued until after GAO's fieldwork in Wisconsin was completed.

ACTION NEEDED TO
FIND AND PURSUE FRAUD

Wisconsin does not know how many AFDC recipients may be receiving cash benefits in more than one county or in bordering States. There

is a statewide computer file used to disclose duplicate applications for medical assistance (Medicaid) that contains all AFDC recipients, but Wisconsin does not require caseworkers to followup on computer-identified applicants who may be attempting to obtain duplicate benefits. (See p. 19.)

Wisconsin follows the minimum Federal requirements for identifying and pursuing fraud cases, but clarifying guidelines elaborating on identifying, investigating, and prosecuting welfare fraud have not been issued. (See p. 20.)

Although Wisconsin does not sponsor a welfare investigative force, Milwaukee County has such a unit called a "fraud squad." Financed solely by the county, the squad investigates welfare fraud complaints and overpayments resulting from recipient errors. Since its creation in 1963 through 1977, the squad has received about 13,500 investigative requests; has investigated about 8,000 of them, and has identified fraud of $4.1 million in about 3,100. During 1977, the squad found evidence of fraud totaling about $459,000 in 300 of the 736 cases it investigated.

Understaffing of the squad has resulted in a backlog of about 5,500 requests; squad officials estimated that about 2,000 of these could be purged because the State statute of limitations had expired. County officials said the squad's size would have to be increased from 8 to 20 to eliminate the backlog and keep current. (See pp. 20 to 22.)

The Wisconsin Department of Health and Social Services could improve its efforts to detect and prosecute fraud by:

--Requiring caseworkers to use the medical assistance computer file to identify persons receiving or applying for benefits in more than one county.

--Issuing clarifying guidelines to county welfare agencies and county prosecuting attorneys

to elaborate on detecting, investigating, and prosecuting AFDC fraud. (See p. 26.)

Wisconsin officials generally agreed with these actions, and said that they

--plan to develop followup procedures for caseworkers on using the medical assistance computer file, distribute them to the counties, and crossmatch the purified medical assistance file against AFDC benefit files in bordering States to identify recipients receiving multiple benefits, and

--believe that issuing clarifying guidelines to deal with fraud would be a feasible corrective action.

The Milwaukee County Board of Supervisors and County Executive could improve fraud detection by increasing the staff of the fraud squad to eliminate the backlog of cases and to remain current on investigations of fraud allegations. (See p. 28.)

Milwaukee County officials agreed, but did not state what action they would take.

ACTIONS NEEDED TO IMPROVE RECOVERY OF OVERPAYMENTS

Before June 1977 the Wisconsin welfare agency did not believe it had statutory authority to require recipients to refund overpayments because the law then in effect was silent on the matter. State procedures provided that counties could only request clients to make voluntary restitution of overpayments resulting from client-caused errors, but not of those resulting from agency-caused errors.

In June 1977 the Wisconsin legislature gave the State welfare agency authority to collect overpayments resulting from client- and agency-caused errors, subject to approval by the legislature of implementing regulations. The

regulations, which had not been approved as of February 1978, provide for securing judgments against persons no longer receiving AFDC, but they do not cover persons still on the rolls who have no income or resources. (See p. 22.)

While its current grant processing system identifies overpayments resulting from client- and agency-caused errors, Milwaukee County has established accounts receivable only on overpayments resulting from client errors. Until GAO's review, the county did not know the total amount of overpayments outstanding from all causes.

Also, the county has not established adequate collection procedures to recoup overpayments resulting from client-caused errors. The welfare agency relied solely on sending monthly statements to recipients with known addresses; it did not use repayment followup letters and only attempted to correct addresses by requests to caseworkers.

GAO estimated that as of December 31, 1977, Milwaukee County had outstanding overpayments of about $2.6 million. The county had not attempted to collect about $1.1 million of this balance because it did not have current addresses on recipients owing about $436,000 and, under existing procedures, did not attempt to collect the other $668,000 resulting from agency errors. (See pp. 24 to 25.)

The Wisconsin Department of Health and Social Services could strengthen the proposed regulations for recovering overpayments by amending them to provide for obtaining court judgments against AFDC recipients who remain on aid and have no income or other resources for collection later when the client obtains assets or income or goes off the rolls. (See p. 27.)

A State official said it would be feasible to amend the proposed regulations to provide for such judgments.

The following actions by the Milwaukee County Board of Supervisors and County Executive could improve the collection of overpayments:

--Improve accounting controls by establishing accounts receivable for overpayments resulting from agency-caused errors.

--When the proposed overpayment recovery regulations are approved, establish formal collection procedures, including periodic followup letters to and personal contacts with recipients to request compliance with agreements to refund overpayments. (See p. 28.)

Milwaukee County officials generally agreed, but did not state what actions they would take.

IMPACT OF PROGRAM OPTIONS CHOSEN

Wisconsin officials identified 23 AFDC program options which they believed were available to the State. GAO considered 12 of these to be major because they apparently would have the most significant impact on the size and/or cost of the AFDC program in the State. Wisconsin originally implemented all 12 but has since dropped 2 of them.

Of the 10 options currently in effect, 7 expand the size and/or cost of the program, 1 restricts eligibility, 1 promotes administrative efficiency, and 1 relieves the counties of financially contributing to the cost of the program. The unemployed fathers option of the AFDC program accounted for 7 percent of the average monthly caseload and 10 percent of benefit payments during the July 1976-June 1977 period. The specific impacts of the other options implemented by Wisconsin were not available. (See p. 29.)

Wisconsin's AFDC caseload increased by 473 percent between 1966 and 1976 while the nationwide average increased by 228 percent. The program

options discussed above as well as other legislative, social, and economic changes over these years resulted in the growth of the AFDC caseload, both in Wisconsin and nationwide. (See p. 33.)

EFFECTIVENESS OF INCOME DISREGARDS

Expressing concern over increasing AFDC caseloads, the Congress added work incentives to the Social Security Act. The primary ones, used in determining the amount of monthly earned income offset against the potential grant, were the disregard of (1) the first $30 earned plus one-third of earned income over $30 and (2) reasonable work-related expenses.

These provisions, designed to encourage sustained work effort by recipients, permitted them to retain a portion of their earnings in the hope that they would eventually work themselves off welfare. (See p. 36.)

GAO reviewed the results of five separate studies of the effects of these provisions and also sampled selected AFDC recipient case files in California and Wisconsin to ascertain the provisions' impact on welfare grants. GAO noted that in these States recipients have legally remained on welfare while earning substantial incomes, largely because of the combined effect of the two income disregard provisions. Based on this work, GAO believes the income disregard provisions have not achieved their intended result. (See pp. 38 to 45.)

The weaknesses of current AFDC income disregard provisions have been widely recognized. Some 17 bills, which in part would change these provisions, have been introduced in the 95th Congress, but final action had not been taken on any of them as of May 1978. GAO tested the effect of the provisions of one, the President's welfare reform proposal, on selected AFDC cases in California and Wisconsin and found that welfare grants would generally be reduced or eliminated. (See pp. 45 to 47.)

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ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare

CHAPTER 1

INTRODUCTION

A series of Milwaukee Sentinel articles on the Aid to Families with Dependent Children (AFDC) program in Wisconsin prompted Representative Robert W. Kasten, Jr.'s request that we review selected aspects of the State's program. Our first report, dated August 3, 1977, addressed matters in the Representative's initial request, except a matter concerning the AFDC income disregard provisions.

This report addresses the income disregard matter and additional matters contained in his second request. Accordingly, we

--examined and evaluated Wisconsin's implementation of the Child Support Enforcement program,

--ascertained the procedures used by Wisconsin to make initial AFDC eligibility determinations and redeterminations and compared them to those used by Indiana,

--reviewed and evaluated the steps Wisconsin has taken to reduce erroneous payments and detect fraudulent practices by recipients,

--ascertained and evaluated the methods used by Wisconsin to collect erroneous payments,

--examined the AFDC program options available and determined those adopted by Wisconsin and their impact on the State's AFDC caseload, and

--developed information on AFDC caseload changes nationwide and in Wisconsin with emphasis on causes of the changes.

AFDC is one of the largest federally aided public assistance programs. Administered by the States in cooperation with the Department of Health, Education, and Welfare (HEW), the program provides financial assistance to needy children and their parents or relatives to encourage the care of dependent children in their home.

Each State must submit a comprehensive plan to HEW describing the nature and scope of its AFDC program and its promise to administer the plan according to Federal statutes and regulations. The plan must include a continuing quality control program designed to assure that correct payments are made to qualified AFDC recipients in compliance with State regulations. A State's quality control review procedures must include sampling techniques, provide for field investigations of selected cases, and identify corrective actions to be taken on erroneous payments and program administration weaknesses. Each State must submit semiannual reports to HEW on the results of its quality control reviews and its plans to reduce erroneous payments.

Federal and State payments for AFDC during fiscal year 1977 amounted to $10.2 billion of which the Federal share was $5.5 billion, or 54 percent. The Federal share varies among States and ranged from 50 to 83 percent in 1977. In Wisconsin the Department of Health and Social Services establishes eligibility criteria and 72 county welfare offices apply them. The cost of Wisconsin's AFDC program during fiscal year 1977 was $239.6 million of which the Federal share was $143.5 million, or about 60 percent, and the State's share was $96.1 million, or 40 percent.

Welfare is, to a considerable extent, a problem of nonsupport of children by their absent parents. HEW estimates that over 7 million children (2.9 million families) who have an absent parent receive AFDC benefits. The Child Support Enforcement program, authorized under title IV-D of the Social Security Act, as amended (42 U.S.C. 651 et seq.), requires each State to establish a program to locate absent parents, establish paternity, and secure support. For fiscal year 1977, the program administrative costs totaled $258.8 million nationwide of which the Federal share was $190.3 million. Wisconsin spent about $7 million to administer the program and collected about $19 million from absent parents during that year.

There are a number of AFDC program options in the Social Security Act which States may choose to adopt and have the Federal Government share in the cost. One, providing assistance to families with an unemployed father, had been adopted by 29 jurisdictions, including Wisconsin, as of 1977. Another, providing emergency assistance to needy families with children, was in operation in 25 jurisdictions during 1977. Wisconsin withdrew from the federally-aided Emergency Assistance Program in 1975.

The AFDC caseload increased significantly, nationwide and in virtually all States, during 1966-1976. Several reasons have been given for the increase, including adoption of program options, liberalized eligibility criteria, and high unemployment. Appendix I shows caseload changes by State for this period during which Wisconsin's caseload increased by 473 percent while the nationwide average increased by 228 percent.

Work incentive provisions were added by the Congress to the Social Security Act to encourage AFDC recipients to become self-supporting and eventually work their way off welfare. These provisions, used in determining the amount of monthly earned income offset against the potential grant, were (1) in 1962 the disregard of reasonable work-related expenses and (2) in 1967 the disregard of the first $30 earned plus one-third of earned income over $30. They were intended to encourage sustained work effort by recipients by allowing them to retain some portion of their earnings rather than having their grants reduced dollar for dollar by such earnings.

SCOPE OF REVIEW

We made our review between July 1977 and April 1978 at HEW headquarters, Washington, D.C.; the HEW Chicago regional office; and in three States--California, Indiana, and Wisconsin--where we reviewed program records and interviewed Federal, State, and county welfare program officials. Most of the fieldwork was done in Wisconsin where we also reviewed selected AFDC and child support case files to test the operation of the programs.

In Indiana we identified the actions it had taken to reduce AFDC errors, deal with recipient fraud, and collect overpayments to determine which of these actions might help to improve Wisconsin's AFDC program. Indiana was selected because it (1) is located in the same HEW region as Wisconsin and (2) ranked lowest in the region and third lowest in the Nation in AFDC case and payment error rates during the January-June 1977 quality control reporting period.

In California we reviewed selected AFDC recipient case files to ascertain the impact of the income disregard provisions on their welfare grants.

We also reviewed five studies which had the objective of measuring the impact of the income disregard provisions on the work response of AFDC recipients.

CHAPTER 2

POTENTIAL FOR GREATER CHILD SUPPORT COLLECTIONS

Wisconsin could collect more child support payments from absent parents. In Milwaukee County, which had 43 percent of the State's child support caseload in September 1977, the absence of a centralized child support authority impairs efforts to speedily establish paternity and effectively enforce court-ordered payments.

Our random sample of 120 out of 1,300 Milwaukee County child support orders on paternity cases issued during the 12 months ended June 30, 1977, showed that full or partial collections of $16,647 were made on only 37 percent of the 120 orders as of December 31, 1977, leaving an amount still owed of $494,897. Based on our sample, as much as $5.9 million in child support may be unpaid on the 1,300 orders. Since the county had 8,783 child support orders on paternity cases in effect at December 31, 1977, a far greater collection potential exists.

PROGRAM REQUIREMENTS AND USE OF COLLECTIONS

The Child Support Enforcement program grew out of congressional concern that parents were deserting their families, often leaving them with no choice but to fall back on public assistance.

The law requires that:

--HEW and each State have a separate agency to administer the program.

--The Federal and each State agency establish a service for locating absent parents.

--Applicants for or recipients of Aid to Families with Dependent Children assign support rights to the State and cooperate in establishing paternity and securing support.

--Support payments for AFDC recipients be paid to the State for distribution, rather than directly to the family.

--All States cooperate in locating absent parents, establishing paternity, and securing support.

--Each State makes its child support services available to individuals not receiving AFDC.

Child support collections are used primarily to reimburse the States and the Federal Government for assistance payments to needy families. Fifteen percent of the Federal share of the collections is reallocated to counties for enforcing support orders and collecting payments. Thus, when payments are not made, it is Federal, State, and local governments that lose money--welfare recipients are unaffected.

PROGRAM ADMINISTRATION

At the Federal level the Child Support Enforcement program is administered by HEW's Office of Child Support Enforcement which is required to review and approve State IV-D plans, establish standards for effective State programs, and establish organizational and staffing requirements for IV-D agencies. The Office also is required to (1) provide technical assistance to States, (2) assist them with reporting procedures, (3) maintain records of program operations and child support expenditures and collections, (4) evaluate the implementation of State child support programs, and (5) conduct an annual audit of each State to determine if it has an effective program that meets the requirements of the law. Through the Office's Federal Parent Locator Service, it assists the States upon request in locating absent parents by providing the most recent home address and/or most recent place of employment.

In Wisconsin, the State Department of Health and Social Service's Bureau of Child Support administers the program. The bureau has contracted with each County Board of Supervisors or its designee to provide child support enforcement services. The Clerk of Circuit and County Court in each county collects support payments and sends them to the State Department of Health and Social Services for distribution primarily to the Federal Government and the counties. According to a State official, the program has been implemented in all 72 Wisconsin counties.

During fiscal year 1977, Wisconsin spent about $7 million to administer the program with about 350 State and county employees (full-time equivalent). For the same year, the State

collected about $19 million from absentee parents. (App. II compares Wisconsin collections with other States in HEW's region V.)

In evaluating the efficiency and effectiveness of collection efforts, we concentrated on Milwaukee County's child support program which had 43 percent of the State's child support caseload in September 1977.

In 1976 the Milwaukee County Board of Supervisors established the Commission on Family Resources to set up a child support program. The program is carried out by a family resources coordinator with a staff of about 10, who comprise the Division of Family Resources. The commission has legal agreements, called contracts, with various county agencies for referral and legal services necessary to carry out the program.

The county pursues child support collections for two types of cases: (1) divorce or separation and (2) birth of children out of wedlock. In the latter case, the county establishes the paternity of a child and orders support payments. Our review concentrated on out-of-wedlock cases involving AFDC.

Paternity and the amount of child support payments are established and collection action is taken in a complex process by the Division of Family Resources and the various county units with which it has contracted. County responsibility for child support enforcement is divided as follows:

--The public welfare department refers AFDC recipients to the corporation counsel for a paternity determination.

--The corporation counsel initiates paternity actions, prosecutes absent parents to obtain a judgment of paternity, and represents the county in civil suits when payments are not made.

--The county court's civil division establishes paternity, assesses parents' ability to pay support, issues court orders for support payments, and takes actions, such as garnishment of wages, when these orders are ignored.

--The sheriff's office helps locate absent parents, serves them court summonses, and arrests them if they fail to appear.

--The Clerk of Circuit and County Court receives and accounts for payments, contacts parents who are delinquent, and initiates contempt proceedings.

--The Division of Family Resources maintains a system of case files and other records for locating parents and writes letters to parents who fail to comply with court orders.

--The district attorney assesses absent parents' ability to pay support under the Uniform Reciprocal Enforcement of Support Act (for interstate paternity cases) and prosecutes appropriate cases under the criminal statutes.

Child support is set by the court in a child support order and may be comprised of three elements: medical expenses for maternity, past support (from birth to the time of the order), and future support until the child reaches age 18. The parent usually is ordered to make monthly payments based on his ability to pay.

FACTORS LIMITING CHILD SUPPORT COLLECTIONS

Milwaukee County's implementation of the child support program has resulted in limited collections. The county lacks a separate agency with the authority and staff to expeditiously process paternity cases which has contributed to

--long delays in establishing paternity and ordering support, and

--slow and insufficient efforts to collect delinquent payments.

Lack of centralized authority inhibits program management

The Milwaukee County family resources coordinator has the responsibility, but insufficient authority, for managing the Child Support Enforcement program. The complex subcontracting structure has placed the coordinator in a position where he can only recommend, not direct, program improvements.

Furthermore, receiving inputs from so many organizations makes it difficult for him to monitor program activity or measure accomplishments.

The coordinator said he cannot direct changes in the functioning of the various affiliated child support units because they are not under his control. For example, employees in the clerk of court office, who account for child support collections and act on nonpayment of support orders (see p. 9), are not supervised by the coordinator. In addition, assistant corporation counsels, responsible for legal proceedings to establish paternity and enforce support orders, report to supervisors not involved in the child support program. Scattering key program activities among different offices not only weakens management, but also makes delays in processing paternity cases more likely.

In December 1976 the State advised the county of these problems and since then the county has been considering other program administrative structures. One option is to transfer program personnel to a single organizational unit. As of February 1978, no decision on organizational changes had been made.

Delays in establishing paternity

To assess the speed with which paternity and support payments are established in Milwaukee County, we randomly selected 120 out of 1,300 support orders issued during the 12 months ended June 30, 1977. The county took an average of about 14 months to establish paternity and the amount of support payments due. A large portion of this time can be attributed to delays in arranging appearances before two court commissioners who also hear small claims cases. According to a county official, it takes about 3 months to arrange each court appearance required during the prosecution of absent parents. At least two appearances are necessary in each case--one for arraignment and one to set terms for payment.

Another factor contributing to the delay is the difficulty in locating parents. AFDC recipients are frequently unaware of the absent parents' whereabouts and can only provide their names. It is the task of the family resource coordinator's staff to locate such persons. One staff member said she contacts various public and private sources (e.g., telephone company, post office, law enforcement agencies,

and employers), trying to obtain a parent's address. In addition, the county requests assistance from the State and Federal parent locator services. (See app. III for use of parent locator service in Wisconsin.) This search is generally made at the start of paternity proceedings and/or after the parent fails to comply with the payment order. The staff member said she is overburdened with requests to locate absent parents but could not tell us how many requests were backlogged.

Ineffective collection activities

The difficulty in locating parents and establishing paternity is compounded by the inability of Milwaukee County to act quickly and effectively against parents who fail to comply with support orders. The county has not directed sufficient resources to assure that absent parents comply with support orders. As a result, county collection actions have been slow or nonexistent.

During calendar year 1977, the county collected $5.5 million 1/ in support payments and spent about $1.5 million to administer the program. However, in no month were collections made on more than 27 percent of support orders.

Nine county employees have responsibility for collection action against absent parents who are delinquent on support payments--two "paternity followup clerks" responsible to the family resource coordinator and seven "paternity trustees" in the clerk of court office.

The county's computer system produces lists of delinquent accounts. The followup clerks review these lists and choose parents to whom they will write requesting payment. If no payments result, the clerks refer the cases to the paternity trustees for legal action.

Until August 1977, there was only one followup clerk who could send letters to just a small percentage of the parents who were making no payments. Because the caseload is increasing, county officials could not say whether adding the other clerk in August resulted in broadening the coverage.

1/Includes collections on both paternity and divorce or separation cases; a breakdown of collections by case type was not available. At December 31, 1977, there were 8,783 paternity and 7,794 divorce or separation orders--a total of 16,577.

According to a county official, 60 percent of the paternity trustees' time is spent appearing in court to provide a record of the amount of support payments owed by parents. Thus, they can spend only 40 percent of their time following up on unpaid support orders. Furthermore, the trustees have no established priority for reviewing cases of nonpayment. Each trustee's workload--1,400 to 1,900 cases--is so large that only problem cases can be dealt with. Routine case reviews of payment status of all delinquent cases had not been made for about a year.

We reviewed trustees' files for 12 of our 120 randomly selected cases to determine collection actions taken. At December 31, 1977, no payments had been made on any of the cases and delinquencies ranged from 11 to 18 months. According to trustee files:

--Followup action was taken on four cases within 6 months after the effective date of the court order.

--Followup action was not begun in four cases until payments were delinquent over 6 months.

--No followup action was initiated in three cases.

--Paternity in the remaining case was still being adjudicated in the courts.

Another factor slowing followup is that trustees and followup clerks do not coordinate their collection efforts. Both sometimes act on the same case in a given month, while numerous other cases remain unattended.

MORE CHILD SUPPORT COULD BE COLLECTED

Milwaukee County officials could not tell us the total amount owed by absent parents at any given time. We, therefore, estimated this amount as of December 31, 1977, using our random sample of 120 of the 1,300 child support orders issued on paternity cases during the 12 months ended June 30, 1977. The total amount owed on these 120 orders was $511,544. On only 44 cases, or 37 percent, had any payments been made--the payments totaled $16,647. Not all of the remaining $494,897 represented delinquent payments since some were not then due according to the orders, but we could not readily ascertain the delinquent amounts. Projecting this unpaid balance to

the 1,300 orders, we estimate a total of from $4.8 million to $5.9 million in child support was unpaid on these orders as of December 31. 1/ Since the county had 8,783 child support orders on paternity cases in effect at that date, a still greater collection potential exists.

ACTIONS WHICH COULD INCREASE CHILD SUPPORT COLLECTIONS

Weak procedures, absence of centralized authority, and inadequate staffing levels have prevented Milwaukee County and Wisconsin from maximizing collections under the Child Support Enforcement program. While program collections have exceeded costs in both the county and the State, there is potential for much greater collections. Delays in establishing paternity, locating absent parents, and acting on delinquent payments prevent the county and State from realizing this potential.

The following actions by the Milwaukee County Board of Supervisors and County Executive could increase child support collections:

--Centralize child support program activities under one county agency to facilitate program coordination and management.

--Reassign the other duties of the court commissioners who hear paternity cases.

--Devote additional personnel of the family resource coordinator's staff to locating absent parents.

--Assign clerk of court employees other than paternity trustees to testify in court on support payments owed. This would permit the trustees to devote their full time to collection efforts.

--Direct the family resource coordinator to develop a more systematic, business-like approach to collection activity. For example, the computer system that produces lists of delinquent accounts could be expanded to automatically issue letters informing the parents they are in contempt of court and threatening legal action. If they do not timely respond, court action could be taken.

1/This projection is at the 95-percent confidence level.

Milwaukee County officials generally agreed, but did not state what actions they plan to take.

CHAPTER 3

WISCONSIN COULD DO MORE TO REDUCE ERRORS, DETECT FRAUD, AND RECOVER ERRONEOUS PAYMENTS

From 1973 through mid-1977, Wisconsin took various corrective actions which resulted in substantially reducing its Aid to Families with Dependent Children error rates. Other actions being taken, such as development of a computerized system to determine client eligibility and benefits and a monthly recipient reporting system, should, when implemented, further reduce errors. These systems, however, will not be fully operational until late 1980.

In the meantime, Wisconsin might further reduce its AFDC errors by considering (1) the cost effectiveness of requiring all counties to verify client-supplied information, a corrective action taken by Indiana and (2) the practicability of implementing applicable action strategies identified by a recently completed HEW-funded study as cost-effective nationwide in reducing AFDC errors.

Wisconsin could also detect and better prosecute fraud by (1) requiring caseworkers to use the medical assistance computer file, which includes all AFDC recipients, to identify persons receiving or applying for benefits in more than one county and (2) issuing clarifying guidelines on identifying, investigating, and prosecuting fraud.

Milwaukee County has not maximized collections of overpayments from recipients. In the county, which accounted for about 37 percent of the State's AFDC caseload in February 1977, fraud detection has been hampered by inadequate staffing, and welfare officials have not aggressively pursued collections. The county has not developed collection procedures or acted to encourage recipients to make payments after they fail to comply with repayment agreements. Furthermore, it has not established accounts receivable for recipients who receive overpayments because of agency errors. As a result, until our review, the county was unaware of the total amount of overpayments outstanding.

WISCONSIN'S CORRECTIVE ACTIONS TO REDUCE AFDC ERRORS: 1973-77

Two indicators used by HEW for determining the extent of error in the AFDC program are the case error rate and the payment error rate. Case error rates show the percentage of the State's AFDC cases which were ineligible or contained an overpayment or underpayment error. They do not directly show the total welfare dollars misspent. A better indicator of this is the payment error rate which shows the percentage of total welfare payments made to ineligible persons and overpayments to eligible persons.

From 1973, when the current quality control program began, to mid-1977, corrective actions taken by Wisconsin reduced its AFDC case error rate by half--from 35.7 percent to 17.7 percent--and its payment error rate by 23 percent--from 6.1 percent to 4.7 percent. In comparison with other States, the District of Columbia, and the territories for the January-June 1977 reporting period, Wisconsin's case error rate of 17.7 percent and payment error rate of 4.7 percent ranked twentieth and tenth lowest, respectively. (See apps. IV and V.)

The effectiveness of Wisconsin's corrective actions have been measured by the State in terms of their impact on the case error rates. Although the specific impact of the corrective actions on the payment error rates were not identified, they probably contributed to their overall reduction.

Appendix VI contains information on the operation of Wisconsin's AFDC program, including (1) a comparison of Wisconsin's error rates to the national error rates, (2) a distribution of Wisconsin's AFDC errors among the five categories of determination--basic eligibility requirements, resources, income, need, and other--and (3) a description of the major corrective actions taken and planned by Wisconsin and their actual or estimated impact on reducing the error rates.

WISCONSIN'S CORRECTIVE ACTIONS IN PROCESS: 1978-80

Wisconsin's major corrective action in process to reduce agency-caused errors is the development of a computer reporting

network, which, when fully implemented, will uniformly apply Wisconsin's policies for all AFDC eligibility and benefit determinations. This online computer system will automatically determine a client's eligibility and benefits for AFDC, medical assistance (Medicaid), and food stamps at initial application and at the time of redetermination. The system will provide equal treatment for clients statewide by consistently applying rules, regulations, and policies to client-supplied information. (See app. VI, p. 63, for a description of the computer reporting network.)

In addition, the Wisconsin Department of Health and Social Services formed a program training and interpretation section to provide uniform interpretations of AFDC policies to all counties. Caseworkers throughout the State will be able to call a central number and immediately receive policy interpretations when this section is fully operational.

Wisconsin officials told us that special training courses for counties where specific policies were frequently misapplied will be implemented in Wisconsin in 1978. Caseworker calls to the program training and interpretation section, as well as reports from county monitors, will be analyzed to determine whether the counties are having trouble with specific policies. If they are, training courses dealing with the specific policies will be set up in such counties.

Wisconsin's major corrective action in process to reduce client-caused errors is its plans to implement a policy of requiring recipients to submit monthly status reports in Milwaukee County in 1978 which will, if successful, be applied statewide in conjunction with the computer reporting network by late 1980. These reports will require clients to report any change in circumstances that affects their eligibility or grant amount. Caseworkers will review the reports for changes in recipient status and take any necessary actions.

OTHER OPPORTUNITIES TO REDUCE ERRORS

A comparison of Wisconsin's procedures for managing its AFDC program with those used by other States may also yield opportunities for reducing errors. We compared Wisconsin's procedures with Indiana's and found that in several instances Wisconsin had taken or was considering taking actions comparable to those Indiana had implemented. However, we noted that Indiana requires all counties to verify client-supplied

information, a corrective action which might, if found cost-effective and implemented by Wisconsin, reduce AFDC errors in advance of full implementation of the computerized system and monthly recipient reporting.

After completion of our fieldwork in Wisconsin, we noted a recently completed HEW-funded study which explored the causes of AFDC errors and suggested cost-effective strategies the States could implement to reduce them. Wisconsin officials could consider the practicability of implementing those strategies which are applicable.

Verification of client-supplied information

Indiana requires caseworkers to verify all information affecting AFDC eligibility and grant amounts for all initial eligibility determinations and periodic redeterminations. Verification includes a visit by a caseworker to an applicant's home.

Wisconsin allows counties to choose either to accept clients' statements or to verify them against supporting documents or by contacts with other sources. State officials could not identify which counties used which method, but said that the smaller and more rural counties tend to use the declaration method rather than the verification method. Milwaukee County, however, does require use of the verification method. (See app. VI, p. 57, for type of documents required to support initial eligibility.) Home visits are required for initial eligibility determinations but not for redeterminations. However, the June 1977 Wisconsin AFDC funding law required that caseworkers recertify in person the eligibility of 10 percent of the recipients every 6 months.

In addition, Indiana has two methods of verifying income. Recipients' employers are asked to complete a form verifying income and mandatory payroll deductions. Also, AFDC rolls are crossmatched with individuals' earnings employers report to the State for unemployment compensation purposes. This crossmatch is done quarterly for the State's four largest counties and had been done three times for the remaining counties between January 1976 and June 1977.

Although Wisconsin allows counties to choose whether or not to verify client-supplied information, State officials believe verifying income with employers for all working recipients would not be cost beneficial and would place an un-

reasonable burden on employers. Although the State had made no cost-benefit study, we noted that 71 percent of Wisconsin's total client-caused error cases during the first half of 1977 occurred in the income category; 64 percent of the total client-caused errors in income involved clients inaccurately reporting earned income.

Wisconsin's employer reports of wages for unemployment compensation purposes do not show earnings by individual; therefore, the State cannot crossmatch AFDC-recipient-reported income with employer-reported wages. Wisconsin officials are considering changing the employer reports to permit this comparison.

HEW-funded study shows other ways to reduce AFDC errors

In its April 1978 report to HEW on the study results, the contractor (the Urban Institute) identified five major action strategies which were categorized as most promising for error reduction in both urban and nonurban areas. The contractor estimated that, if fully implemented nationwide, these five actions would cut the national case error rate roughly in half and would produce net savings to Federal and State governments of about $500 million per year from avoided payment errors. The contractor reported that the projected nationwide savings were based on actual historical experiences of States which have already implemented, in at least some form, these five actions and are available from implementing nationwide the most successful and cost-effective existing State practices, not radical or untried innovations.

The five action strategies and their expected results, if implemented by all States, follow.

1. Reduce overdue AFDC eligibility redeterminations to the level of the 15 States with the lowest backlog (under 3 percent). This action would reduce the national case error rate by 3 percentage points and reduce payment errors by about $80 million a year at a cost of about $6 million for overtime of existing staff under a crash program.

2. Make client reporting easier by reducing the degree of difficulty in understanding reporting requirements and filling out the reporting forms by rewriting documents and revising procedures. This action would reduce the national case error rate about 2 percentage points and about $120 million in erroneous payments could be averted.

3. Raise the skill level of eligibility workers by reinterpreting an existing Federal requirement for orientation training of new workers to mandate substantial classroom education for them and otherwise increase nationwide training activities by 50 percent for a total cost of about $8 million. This action would cut the national case error rate more than 1 percentage point and save about $100 million a year in avoided erroneous payments and reductions in other administrative costs.

Reducing the turnover among eligibility workers using approaches, such as improving the job climate, hiring workers without college education, increasing promotional opportunities, and raising salaries, would also help, probably at a fractional cost of potential costs avoided. If the average State turnover rate was cut in half, the national case error rate would fall more than 1 percentage point and about $100 million in erroneous payments could be avoided.

4. Adopt program rules, such as consolidated grant standards and "flat grant" work expenses, as simple as those in force in the States with the most simplified rules and procedures. Some simplification would be greatly assisted by Federal legislation. This action could cut the national case error rate more than 4 percentage points and savings in avoided payment errors and reduced administrative costs would amount to about $150 million annually.

5. Develop selective case management systems in a general pattern to vary the intensity of verification, the frequency of recertification, and other administrative resource allocations so that "error-prone" cases receive the required resources but administrative funds are not wasted on overly elaborate handling of routine cases. Such systems would involve analysis of quality control results, development of computer systems, and restructuring of operational policies. Implementation nationwide of technology currently demonstrated by States, such as West Virginia, South Carolina, and Texas, could reduce the national case error rate by about 3 percentage points and save about $80 million a year in avoided erroneous payments.

The contractor also reported that State-administered AFDC programs showed lower error rates than State-supervised programs. Converting all State-supervised systems to State administration would decrease the national case error rate

about 3 percentage points and save about $90 million a year in payment errors.

OPPORTUNITIES TO DETECT AND BETTER PROSECUTE FRAUD

To insure that applicants do not receive money undeservedly, Wisconsin needs to (1) develop followup procedures to detect those who apply in more than one county or across State lines and (2) issue clarifying guidelines on identifying, investigating, and prosecuting welfare fraud. Milwaukee County needs to consider increasing the staff of its fraud squad.

Need for procedures to detect multiple applications

A contractor maintains a computer file for the State of all persons who have established eligibility for medical assistance (Medicaid) in Wisconsin. One way to establish this eligibility is by receiving AFDC. Computer edits insure that an applicant for medical assistance will not be entered on the file if the applicant is already listed. If the applicant is on file, the contractor notifies the county where the recipient last applied. Consequently, the medical assistance eligibility file can be used to identify recipients who may be attempting to obtain duplicate benefits.

The contractor planned to purify the file by removing duplicate records and eliminating errors in 1978. When this is accomplished, a list of all AFDC recipients with duplicate records in different counties will be generated and forwarded to the counties. After checking county records, a county agency will be able to determine whether any recipients have been receiving payments in more than one county and can then initiate prosecution and collection action.

Currently, Wisconsin does not have procedures requiring caseworkers to followup on multiple applications. However, according to a State official, followup procedures will be developed and distributed to the counties and the purified medical assistance file will also be crossmatched against AFDC benefit files in bordering States to identify any recipients receiving multiple benefits. Wisconsin plans to do its crossmatches as soon as the medical assistance file is corrected and qualified technicians become available.

Need for procedures to better prosecute fraud

Federal regulations (45 C.F.R. 235.110) require, in part, that States establish and maintain (1) methods and criteria for identifying situations in which questions of AFDC program fraud may exist and (2) procedures cooperatively developed with State legal authorities for referring to law enforcement officials situations in which there is valid reason to suspect fraud.

Indiana is aggressively pursuing AFDC recipient fraud in the belief that to tolerate it is to encourage it. In 1974 the State advised its county welfare departments to institute fraud proceedings when they discover a recipient who failed to notify the agency of a circumstance change that would reduce or eliminate his/her grant payment. In addition to the Federal requirements for identifying and pursuing fraud cases, the Indiana Department of Public Welfare issued guidelines in January 1977 to county welfare departments and prosecuting attorneys which elaborated on the identification, investigation, and prosecution of welfare fraud. An Indiana official told us that AFDC fraud prosecution has since increased.

Although Wisconsin's AFDC program plan contains the Federal requirements for identifying and pursuing fraud cases, no clarifying guidelines have been issued. State officials said that issuing such guidelines would be a feasible corrective action.

Need to consider increasing size of fraud squad

Although Wisconsin does not sponsor a welfare investigative force, Milwaukee County has such a unit in its "fraud squad." Financed totally from county funds, the squad was established in 1963, as a division of the county sheriff's office, to investigate welfare fraud complaints and overpayments resulting from client errors. It also participates in special investigations, such as crossmatching welfare rolls with listings of persons drawing unemployment compensation benefits. Four other counties in Wisconsin--Dane, Kenosha, Racine, and Waukesha--each have one welfare fraud investigator with a smaller caseload than Milwaukee County's squad. We did not review these counties' fraud investigation activities.

From its inception through calendar year 1977, the Milwaukee County fraud squad received 13,490 investigation requests from caseworkers, the public, and various county agencies. It investigated 7,994 cases and identified fraud of about $4.1 million in 3,052 cases, or 38 percent. (See app. VII for a breakdown of these statistics by year.)

During 1977, the squad found evidence of fraud totaling about $459,000 in 300 of the 736 1/ cases it investigated. Voluntary repayment was agreed to in 148 cases; the remaining 152 were referred to the district attorney for prosecution.

The district attorney prosecuted 87 recipients, declined prosecution on 58, and has criminal complaints pending on 7. Of the 87 individuals prosecuted,

--73 were sentenced to from 1 to over 5 years probation and were ordered to make restitution,

--3 were jailed and required to make restitution,

--1 was jailed with no restitution required,

--2 were granted dismissals, and

--8 were still awaiting court action as of December 31, 1977.

Reasons the district attorney gave for declining prosecutions were:

--The recipients agreed to make voluntary restitution.

--They did not have prior criminal records, had left the county, were ill, or were juveniles.

--He did not believe that prosecution was warranted or that fraud could be proven.

Because of the extensive amount of work that would have been involved, we did not identify either how much money was voluntarily agreed to be repaid on the 148 cases or how much restitution was ordered to be repaid on the 76 cases or the amount actually collected on these cases.

1/Includes 47 cases involving general assistance, medical assistance, and food stamps.

At the end of 1977 there still remained a backlog of 5,496 cases of which the fraud squad officials estimated that 2,000 could be eliminated because the 6-year State statute of limitations covering fraud investigations had expired. According to these officials, insufficient staff has contributed to the large backlog. The number of fraud squad investigators increased from 2 in 1963 to 10 in 1974. As part of an overall effort to avoid a tax increase, the county reduced the squad's staffing level from 10 to 8 deputies, effective January 1977, even though the number of complaints had been increasing at a steady rate. County officials estimated it would take 20 deputies to eliminate the backlog and keep current.

While analyzing vast amounts of financial data to determine total collections made by Milwaukee County during 1977 on grant overpayments, we isolated, to the extent possible, the total collections which directly resulted from the fraud squad's 1977 and prior years' activities. We found that in 1977 about $208,100 was collected which could be related to its activities as follows: $129,700 through voluntary repayments, $61,900 through court-ordered repayments, and $16,500 through automatic grant reductions. An unknown amount, which could not be segregated, was also included in the total amount collected through automatic grant deductions.

POTENTIAL FOR GREATER RECOVERY OF OVERPAYMENTS

One of Indiana's revised procedures is aimed at increasing recoveries of overpayments in nonfraud cases. Indiana has encouraged counties to obtain small claims court judgments for overpayment amounts when recipients either have no available income or assets or are no longer receiving AFDC. The judgment allows the county at least 10 years after the recipient obtains assets or income or goes off the rolls in which to recover such overpayments.

Before June 1977 the Wisconsin Department of Health and Social Services did not believe it had statutory authority to require recipients to refund overpayments because the law then in effect was silent on the matter. State procedures provided that counties could request that clients make voluntary restitution on overpayments resulting from client-caused errors because of the possibility that they were willful, either by automatic grant deductions or cash payments. On overpayments

resulting from agency-caused errors, counties were to bring them to the clients' attention but repayments were not to be requested, although voluntary refunds would be accepted.

In June 1977 the Wisconsin legislature responded to a request from the department by passing a law giving it authority to collect overpayments, subject to approval by the legislature of regulations for recovering overpayments which occur

--because recipients fail to report changes in income or other circumstances,

--while recipients are appealing agency decisions regarding eligibility or grant size, or

--because of agency errors.

The department proposed regulations to implement the law in October 1977 but they had not been approved as of February 1978. Under the proposal, overpayments may be recovered from persons who are currently receiving AFDC payments by reducing their monthly grants, except that persons having no earned income will not have their grants reduced unless the overpayment resulted from fraud. Cash recovery from those no longer on welfare rolls will still be effected by agreement, but persons who do not voluntarily make repayments will be subject to legal action in the form of a court order to make repayment.

However, the proposed regulations do not provide for securing judgments against recipients who have received overpayments for reasons other than fraud and who remain on the rolls but have no income or other resources. A Wisconsin official said it would be feasible to amend the proposed regulations to provide for obtaining a court judgment on these latter cases for collection later when income or assets become available or the client goes off the rolls.

Although the State sets overall policies for collection of overpayments, each county is responsible for making the actual collections. In Milwaukee County the business office of the public aid department is responsible for collecting and accounting for overpayment refunds caused by client or agency error. The State probation department in Milwaukee is responsible for collecting court-ordered repayments.

Neither department, however, has established formal collection procedures. The probation department waits until the client has assets before attempting collections. The collection efforts of the public aid department consist solely of sending out monthly billing statements to recipients whose addresses are known. It sends no followup letters requesting payment nor does it attempt to correct addresses, other than by requesting corrections from caseworkers. The latter action is not always effective and can needlessly tie up the caseworkers' time as the incorrect addresses can belong to people who are no longer receiving AFDC. The business office could take a more aggressive approach by contacting other sources, such as the post office, to attempt to obtain correct addresses for these people.

While its current grant processing system identifies overpayments resulting from client- and agency-caused errors, the county has established accounts receivable only on the client-caused ones. Even though voluntary repayments were being made by some recipients on overpayments resulting from agency-caused errors, the totals of the overpayments were not known. To attempt to ascertain the total amount of overpayments outstanding, we had to review and analyze volumes of financial data.

We estimated that overpayments outstanding in Milwaukee County as of December 31, 1977, classified by method of recovery, totaled about $2.6 million as follows:

Method of recovery	Amount (000 omitted)
Voluntary cash agreements:	
Client errors (note a)	$1,463
Agency errors	668
Automatic grant deductions (both client and agency errors)	450
Total overpayments outstanding	$2,581

a/Includes court-ordered restitutions.

During 1977 the county public aid department collected about $644,000 in overpayments. (See app. VIII for the amount of overpayments collected by the county during the years 1974-77.) However, it made no effort to collect over $1.1 million in outstanding overpayments as follows:

Cause	Amount (000 omitted)
Client errors	$ 436
Agency errors	668
Total	$1,104

The county did not attempt to collect the $1.1 million because (1) it did not have current addresses for the clients who caused errors and (2) under existing procedures, it could not collect on agency-caused overpayments. Those repayments which the county received on agency-caused errors were voluntary on the clients' part.

ACTIONS WHICH COULD IMPROVE WISCONSIN'S AFDC PROGRAM

Since 1973 Wisconsin's corrective actions have substantially reduced its AFDC error rates. Further error reduction should result from implementing the computer reporting network and the monthly recipient reporting policy. The network should reduce agency-caused errors because county personnel will not need to individually interpret State policies, rules, and regulations. Monthly recipient reporting should reduce client-caused errors by requiring monthly reports to the State on changes in recipient status. Neither of these actions, however, will be fully operational until late 1980.

Additional corrective actions might reduce Wisconsin's AFDC case and payment error rates in the meantime. Requiring all counties to verify client-supplied information, including income, a step taken by Indiana to reduce its AFDC errors, could be considered by Wisconsin for implementation if determined to be cost effective. Wisconsin might also consider the practicability of implementing those applicable cost-effective action strategies for reducing AFDC errors identified in the recently completed HEW-funded study.

In response to a mandate from the State legislature, the Wisconsin Department of Health and Social Services proposed

regulations for recovering AFDC overpayments. While the proposed regulations seem reasonable, an additional provision implemented in Indiana, involving the use of court judgments, might be added to strengthen them.

To help deal with welfare fraud, States should have a detection and prosecution program which includes (1) computer crosschecking of applicants to detect multiple applications and (2) effective investigation, prosecution, and overpayment collection systems. Although Wisconsin has a medical assistance computer file that includes all AFDC recipients, it has not required caseworkers to use the file to identify applicants who may already be receiving payments in another county.

In Milwaukee County, understaffing of the fraud squad has created a large backlog of suspected fraud cases. Also, accounts receivable for overpayments resulting from agency-caused errors have not been established. Having this accounting control would enable the county to keep abreast of the magnitude of such overpayments. Efforts to recoup erroneous payments have been insufficient and will need to be strengthened to implement the proposed overpayment recovery regulations, when approved.

The following actions by the Wisconsin Department of Health and Social Services could help reduce AFDC errors:

--Require, if cost-effective, all counties to verify eligibility information reported by AFDC applicants and recipients, particularly verifying with employers the income of working AFDC recipients.

--Revise the employer reports to the State of wages for unemployment compensation purposes to show earnings by individual to permit comparisons of recipient-reported income with employer-reported wages.

--Evaluate the cost-effective action strategies for reducing AFDC errors identified in the recently completed HEW-funded study and implement, if practicable, those that are applicable.

The following actions by the State agency could improve efforts to detect and prosecute fraud:

--Require caseworkers to use the medical assistance computer file to identify those receiving or applying for benefits in more than one county.

--Issue clarifying guidelines to county welfare agencies and county prosecuting attorneys to elaborate on detecting, investigating, and prosecuting AFDC fraud.

The State agency could strengthen the proposed regulations for recovering overpayments by amending them to provide for obtaining court judgments against AFDC recipients who remain on aid and have no income or other resources for collection later when the client obtains assets or income or goes off the rolls.

In commenting on the first two actions to reduce AFDC errors, State officials said that:

--Although no studies had been made, they did not believe complete verification of applicant information would be cost beneficial. We believe a study would be appropriate to identify those aspects of verification that would be cost beneficial, particularly verifying income of working AFDC recipients with employer-reported wages.

--They are considering changing the employer reports to permit crossmatches.

The third action to reduce AFDC errors was not discussed with Wisconsin officials because the study report was not issued until after our fieldwork in Wisconsin was completed.

Concerning the actions to deal with fraud, the officials did believe that it would be feasible to issue clarifying guidelines to elaborate on detecting, investigating, and prosecuting AFDC fraud. Regarding caseworkers' use of the medical assistance computer file to identify those receiving or applying for AFDC benefits in more than one county, a State official said that followup procedures for identifying multiple applications using the medical assistance file will be developed and distributed to the counties. He said that the purified medical assistance file will also be crossmatched against AFDC benefit files in bordering States to determine whether any recipients are receiving multiple benefits.

Concerning the action to improve collection of overpayments, a State official said it would be feasible to amend the proposed regulations to provide for obtaining court judgments against AFDC recipients who remain on aid and have

no income or other resources for collection later when the client obtains assets or income or goes off the rolls.

The following actions by the Milwaukee County Board of Supervisors and County Executive could improve fraud detection and collection of overpayments:

--Increase the staff of the fraud squad to eliminate the backlog of cases and to remain current on investigations of fraud allegations.

--Improve accounting controls by establishing accounts receivable for overpayments resulting from agency-caused errors.

--When the proposed overpayment recovery regulations are approved, establish formal collection procedures, including periodic followup letters to and personal contacts with recipients to request compliance with agreements to refund overpayments.

Milwaukee County officials generally agreed, but did not state what actions they plan to take.

CHAPTER 4

MAJOR AFDC PROGRAM OPTIONS IMPLEMENTED BY WISCONSIN AND AFDC CASELOAD CHANGES

Title IV-A of the Social Security Act and related Federal regulations specify the mandatory program criteria that must be included in each State's Aid to Families with Dependent Children plan to qualify for Federal financial participation in assistance and administrative costs. In addition, the law and regulations provide program options which States may elect to implement.

We reviewed the act and the Federal regulations which clarify and interpret the law to identify program options available to the States. Wisconsin officials also reviewed the Federal regulations and identified 23 options which they believed were available to the State. We considered 12 of the 23 options to be major because they appeared to have the most significant impact on the size and/or cost of the AFDC program in the State. Wisconsin originally adopted all 12 of these options but has since dropped two of them.

Of the 10 options currently in effect, 7 expand the size and/or cost of the program, 1 restricts eligibility, 1 promotes administrative efficiency, and 1 relieves the counties of financially contributing to the cost of the program. Except for the unemployed fathers option of the AFDC program, the specific impacts of the options implemented by Wisconsin were not available.

MAJOR OPTIONS CHOSEN WHICH TEND TO EXPAND THE AFDC PROGRAM

The following seven options selected by Wisconsin tend to expand the size and/or cost of its AFDC program.

1. Providing AFDC assistance to needy children who are deprived of parental support because their fathers are unemployed is optional with the States. Wisconsin implemented the unemployed fathers option in 1971 to relieve some of the pressures on the non-federally funded general relief programs operated at the local level. Federal and State monies are

now being used to fund this caseload. Between July 1976 and June 1977 the average monthly number of AFDC families in Wisconsin was about 67,000. Of this number, about 4,800 families, or about 7 percent of the monthly caseload, received assistance because of the unemployed fathers segment. About 10 percent of total AFDC payments made during this period were to unemployed fathers recipients.

2. In determining the size of an assistance unit and the corresponding grant amount, States have the option of including the needs of any essential person living in the same household as the AFDC family group but who would not be eligible for assistance on his or her own. An example would be a grandmother whose widowed daughter and grandchild who are on AFDC live with her. The grandmother would be ineligible on her own, but if she provided child care while the parent worked, she would be considered to be an essential person. Wisconsin implemented this option more than 20 years ago and it increases program costs.

3 and 4. Within certain limitations, States have options as to when assistance must begin and when it must be terminated. Providing all eligibility requirements are met, assistance can begin on either the first day of the month in which the application is received or 30 days after its receipt. Since 1969, Wisconsin has been providing assistance at the earlier date so that administrative processes do not prevent an eligible needy person from receiving assistance in the most timely manner. A State can continue to provide assistance for a temporary time period after eligibility ceases to exist. Since 1976, Wisconsin has continued assistance to a family for up to 60 days after a spouse is released from an institution and after an unemployed father becomes employed until he receives his first paycheck.

Implementation of these options increases program costs. In the case of the latter option, needy individuals are able to continue to have an income during a transition period while the eligibility condition is being overcome.

5. Each State has the option of making protective and vendor payments to individuals other than a caretaker relative when the caretaker has shown an inability to manage funds in the best interest of the child. Wisconsin implemented this option and it increases AFDC administrative costs.

6. Each State has the option of disregarding assistance received from other agencies and organizations as long as no duplication exists between items included in the State's need standard 1/ and items for which recipients receive payments from other agencies. However, if the items are included in the assistance payment because the State pays less than 100 percent of the need standard, other agency payments for them can be disregarded. Wisconsin disregards payments from such sources as general relief, emergency fuel, and vocational rehabilitation agencies because (1) these payments are necessary to help meet emergencies, (2) it is beneficial to take advantage of other federally funded programs, and (3) they enhance the prospects of rehabilitating an incapacitated person. This option increases program costs.

7. In establishing its need standard, a State may either establish a flat amount to meet all identified needs or individually determine amounts for each need item included in the need standard. In 1975 Wisconsin established a total flat grant amount which varies only by family size. Selecting the flat grant option increased program costs, but such increases are partially offset by administrative savings and reduced errors in calculating grants.

MAJOR OPTIONS CHOSEN WHICH RESTRICT ELIGIBILITY, PROMOTE EFFICIENT ADMINISTRATION, AND AID THE COUNTIES

Of the following three options Wisconsin adopted, one restricts AFDC eligibility, one promotes efficient program administration, and one relieves the counties of a financial burden.

1. When determining an applicant's need, the State can specify the amount and types of real and personal property, including liquid assets (in addition to a home, personal effects, an automobile, and income-producing property) that can be retained by the applicant, except that the amount retained may not exceed $2,000 for each individual recipient in the case. In 1975 Wisconsin established a liquid asset reserve

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1/The need standard is the monthly amount, based on family size, which States consider necessary to cover the cost of essential items such as food, clothing, shelter, and utilities.

of $1,500 for an entire family. According to a State official, Wisconsin's lower resource limitation reduces the AFDC caseload and program costs.

2. At the option of each State, additional eligibility conditions that are not inconsistent with the Social Security Act can be imposed on applicants for AFDC assistance. Wisconsin has implemented four additional eligibility requirements which help to promote more efficient AFDC program administration.

(1) A home visit must be made before assistance is granted.

(2) The AFDC application must be signed in the presence of a county welfare agency official.

(3) The State and/or the county welfare agency has the right to recover money from a third party who may be liable for damages to another party which resulted in that party receiving public assistance.

(4) The county agency may require a parent to perform such remunerative work as the parent can do, in the agency's judgment, without resulting in a detriment to the parent's health or in neglect of the children.

3. In funding the State share of the AFDC program costs, States have the option of using only State monies or requiring local governments to share in program costs. Since 1975, Wisconsin has not required local funding of assistance or administrative costs.

MAJOR OPTIONS DROPPED

1. Assistance may be provided to individuals between ages 18 and 21 if they are regularly attending any type of school or are receiving vocational or technical training. Wisconsin stopped providing assistance to individuals 18 and over in 1969. This reduces the number of individuals receiving assistance and program costs.

2. Providing emergency assistance to needy families with children as specified in the Social Security Act is optional with the States. At one time, Wisconsin partici-

pated in the federally-supported Emergency Assistance Program but withdrew from the program in December 1975 because of a court decision holding that the scope of Wisconsin's program was too limited. After withdrawing from the Federal program, Wisconsin decided to continue its limited emergency assistance program for eligible people who are victims of fire, flood, or natural disasters with its own funds. Since Wisconsin now funds its own emergency assistance program, this reduces AFDC program costs.

CHANGES IN WISCONSIN'S AFDC CASELOAD BETWEEN 1966 AND 1976

HEW statistics show that the average monthly number of Wisconsin AFDC families increased between calendar years 1966 and 1976 from 11,239 to 64,400, or an increase of about 473 percent. The largest annual percentage increase (32 percent) occurred between 1970 and 1971 which a Wisconsin official said was due to poor economic conditions. Details of caseload growth are shown in the following table.

Calendar year	Average monthly number of families	Annual increase	
		Number of families	Percent
1966	11,239	-	-
1967	13,733	2,494	22
1968	17,850	4,117	30
1969	21,325	3,475	19
1970	23,742	2,417	11
1971	31,423	7,681	32
1972	39,839	8,416	27
1973	42,888	3,049	8
1974	47,600	4,712	11
1975	57,900	10,300	22
1976	64,400	6,500	11

HEW figures for the first 6 months of 1977 show that the average monthly number of AFDC families was about 69,300.

A State official said that Wisconsin's AFDC caseload has grown because of various legislative, social, and economic changes which have taken place during the last few years. According to this official, two major legislative program changes have contributed to the increased number of AFDC families: (1) as previously stated, the implementation of the optional provision of assistance to children

whose fathers are unemployed and (2) as will be discussed in chapter 5, the implementation of the mandatory $30 and one-third income disregard work incentive provision.

The official also cited the following circumstances as probable causes for increases in Wisconsin's total AFDC caseload: (1) providing AFDC benefits to families with stepfathers in the home, (2) the increase in recent years in the number of unmarried mothers receiving assistance, and (3) the rising unemployment rate in the State which has forced people to look to welfare for support when their resources are used up.

WISCONSIN AFDC RECIPIENTS UNDER AGE 18: 1972-76

As requested, we attempted to determine the percentage of Wisconsin's population under age 18 who were AFDC recipients during 1972-76. Census information on the school-age population in Wisconsin was obtained from the Department of Public Instruction and is considered by State officials to be the best available. However, this data included children through age 19. The State compared the census data to statistics on recipients through age 17 obtained from its quality control random samples of AFDC cases. The results are shown below.

Year	Census figures through age 19	Quality control figures through age 17	Percent
1972	1,562,632	93,140	6
1973	1,537,219	96,043	6
1974	1,501,748	105,493	7
1975	1,485,771	116,515	8
1976	1,450,513	124,308	9

As shown, the percentage of Wisconsin's school-age population who were AFDC recipients increased about 3 percent between 1972 and 1976. The percentage may be somewhat understated because the census figures include 19-year olds. Statistics obtained from a 1977 Congressional Research Service paper on current welfare program data showed that 9.67 percent of Wisconsin's children under age 18 were AFDC recipients in July 1976.

CHANGES IN THE NATIONAL AFDC CASELOAD BETWEEN 1966 AND 1976

HEW statistics show that the average monthly number of AFDC families nationwide increased between calendar years 1966 and 1976 from 1,087,532 to 3,563,500, or an increase of about 228 percent. During this same period, Wisconsin experienced a 473 percent increase in its AFDC caseload, which was the fifth highest percentage increase of the States, the District of Columbia, and the territories. (See app. I.)

The number of AFDC families nationwide each month tends to be a dynamic and ever-changing figure because it is affected by complex variables which work together in different ways to cause the subsequent caseload trends. Since the inception of the AFDC program, the caseload has continued to rise. The growth rate, however, has fluctuated, being more stable during some time periods and more erratic during others.

In general, the growth of the nationwide AFDC caseload has resulted from several factors over the years such as: (1) demographic changes--child population increases, mobility, and migration, (2) economic changes--rising standards of living and unemployment rates, (3) sociological changes--increasing teenage marriages and more broken homes, and (4) administrative, judicial, and legislative program changes.

One of the major contributors to the increase in the national AFDC caseload during the last decade was the implementation of the legislatively mandated income disregard provision which requires the States to disregard the first $30 plus one-third of the remainder of recipients' monthly earnings when determining the amount of assistance that a family with earnings would receive. The provision was intended to function as a work incentive. However, it has allowed more families to continue to receive assistance in cases that normally would have been closed because of higher incomes. A related factor, the legislatively mandated disregard of reasonable work-related expenses from earned income before calculating the grant amount, has also contributed to the sustained caseload and assistance cost increases. These factors are discussed more fully in chapter 5.

CHAPTER 5

EFFECTIVENESS OF THE AFDC PROGRAM

INCOME DISREGARD PROVISIONS

The Aid to Families with Dependent Children program is one of several assistance programs which have some type of work incentives to stimulate recipient employment. Since for practical purposes in the AFDC program, work incentives refer to income disregards, they are used interchangably in this report.

A number of studies of the impact of the AFDC income disregard provisions on recipient work response provide some evidence that recipient employment rates in the areas studied did increase as a result of these provisions. However, the studies also found that recipients did not work themselves off the welfare rolls, the major intent of the incentive provisions, which resulted in increased caseloads and program costs.

Our samples of working AFDC recipients in California and Wisconsin show essentially the same result. The AFDC program income disregards are not achieving the major intended purpose as envisioned by the Congress in either State.

The weaknesses of the current AFDC income disregards have been widely recognized. Some 17 bills, which in part would change these provisions, have been introduced in the 95th Congress, but final action had not been taken on any of them as of May 1978. We tested the effect of the provisions of one, the President's welfare reform proposal, on selected AFDC cases in California and Wisconsin and found that welfare grants would generally be reduced or eliminated.

ENACTMENT OF AFDC WORK INCENTIVES

In the Public Welfare Amendments of 1962 (Public Law 87-543), the Congress enacted several provisions designed to help reverse the increasing AFDC caseload trends by encouraging employment activity among AFDC recipients. By authorizing a wide range of social services and training, the Congress attempted to help families achieve self-support or self-care and to maintain and strengthen family life.

In addition, the 1962 amendments provided that effective July 1, 1963, any expenses reasonably attributable to the earning of income had to be considered in all States when determining need and the amount of the assistance payment for a working welfare recipient. This did reduce some of the financial burden placed on a working recipient, but after the recipient's income was reduced to consider reasonable work-related expenses, the remaining income was applied dollar for dollar against the welfare grant.

By 1967, the Congress became extremely concerned with the rapidly increasing numbers of people on the welfare rolls, the increasing costs to the taxpayers associated with this caseload growth, and the fact that more families had not achieved independence and self-support since the enactment of the 1962 amendments. Therefore, the Congress believed that further and more definitive action was needed.

The Social Security Amendments of 1967 (Public Law 90-248) were enacted with the firm intent of reducing the AFDC rolls by restoring more families to employment and self-reliance, thus reducing the Federal financial involvement in the program. The changes included a requirement that all States have an earnings exemption to provide incentives for work by AFDC recipients, allowing recipients for the first time to keep a portion of their earned income. This provision, effective July 1, 1969, requires that the first $30 a month of the total earnings of a child who is not a full or part-time student and of any other individual in the house whose needs are considered in determining the AFDC grant, plus one-third of the remainder of such monthly earnings, must be disregarded in computing the grant amount. In addition, the work-related expense deduction established by the 1962 amendments was continued.

The Congress believed that the key element needed in a program of work and training for assistance recipients was an incentive to take employment and to increase their earnings to a point where they become self-supporting. If all the earnings of AFDC recipients are deducted from their assistance payments, they have no gain for their effort. Before implementation of the income disregard provision, AFDC recipients in many States had the amounts of their wages directly applied against their welfare grants, reducing them dollar for dollar.

The intent of the Congress in establishing the income disregard provision was two-fold:

1. To create an incentive which would encourage AFDC recipients to obtain employment and increase their earnings.

2. To reduce the AFDC caseloads and related costs as the subsequent increases in AFDC recipient employment and earnings became substantial enough for them to become self-sufficient and self-supporting.

RESULTS OF STUDIES ON THE IMPACT OF THE INCOME DISREGARD PROVISIONS

To assess, to the extent possible, whether the income disregard provisions have met the intent of the Congress, we reviewed five studies which had the objective of measuring the impact of the income disregard provisions on the work response of AFDC recipients. We selected these studies after discussions with an HEW official knowledgable on this issue and consideration of information obtained through a literature search of the issue. Although other studies exist which address this issue to some degree, the five studies chosen for review were deemed to be the most comprehensive and significant which dealt directly with the impact of the income disregard provisions. The studies reviewed were:

1. A Study of the Impact of the Income Disregard: Final Report. Prepared by InterStudy, November 1975.

2. Effects of a Financial Incentive on AFDC Employment: Michigan's Experience between July 1969 and July 1970. Prepared by Gary Louis Appel, Ph.D., March 1972.

3. Welfare Work Incentives-The Earnings Exemption and Its Impact upon AFDC Employment, Earnings, and Program Costs. Prepared by Vernon K. Smith, Michigan Department of Social Services, 1974.

4. The Effects of Changes in the AFDC Program on Effective Benefit Reduction Rates and the Probability of Working. Prepared by Douglas L. Bendt, Mathematica, Inc., Policy Studies Group, August 5, 1975.

5. Effects of the Earnings Exemption Provision upon the Work Response of AFDC Recipients. Prepared by National Analysts, Inc., May 1972.

Studies 1, 4, and 5 were funded by HEW. The others had no Federal funds.

A detailed evaluation of these studies was not possible due to time constraints and their sheer volume. Accordingly, we concentrated our review on the methodological data presented in the studies in relation to the findings and did not attempt to obtain the original raw data used by the researchers. (See app. IX for a summary of each study.)

Study conclusions

Three of the five studies reviewed concluded that employment rates among AFDC recipients did increase in the study areas during the periods studied, thereby accomplishing one intent of the income disregard provisions as envisioned by the Congress. These studies stated that the increases in AFDC recipient employment rates which occurred seemed to be due, in varying degrees, to the effects of the income disregard provisions. The fourth study offered only weak support for the hypothesis that the proportion of working AFDC mothers increased during the study period. Some States included in this study showed consistent and significant increases, while other States showed decreases. The fifth study, which concentrated on AFDC recipients' awareness of the income disregard provisions, found that employment rates significantly increased in only 1 of the 12 areas studied during the study period.

Three studies found that the average monthly earnings of some of the employed AFDC recipients increased during the respective study periods, although the increases could not be directly related to the work incentive provisions in all cases. The other two studies did not specifically address changes in recipients' average monthly earnings.

Despite some increases in employment, all the studies basically came to the same general conclusion that the income disregard provisions did not succeed in causing welfare recipients to become so self-sufficient and self-supporting that they were able to terminate from welfare. That is, the provisions did not result in reducing AFDC caseloads and costs, the major intent as envisioned by the Congress. There was an increase in the level of income which a recipient could earn and still maintain eligibility for AFDC. Therefore, it was more difficult and unlikely for an AFDC recipient to work his or her way off welfare.

Study limitations

In each study reviewed we noted limiting factors. Some of the limiting factors were the size of the AFDC populations studied, time periods covered, failure to assess recipients' attitudes and awareness concerning the work incentive provisions, and limitations in the data used. However, none of the individual study limitations cast serious doubt on the validity of the overall conclusion that, in the areas studied, the income disregard provisions did not reduce welfare caseloads and costs as intended by the Congress.

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We believe differences among State AFDC program operations make it difficult to generalize the results of these studies to the Nation as a whole. Each State's administrative practices, benefit levels, employment opportunities, treatment of work-related expenses to some extent, and overall welfare philosophies differ. Also, it has been shown that activities in individual counties within a State can differ. Further, AFDC recipient attitudes toward work are difficult to measure accurately in a complex environment.

Besides reviewing these studies, we obtained direct evidence of the income disregard provisions' impacts by making limited reviews in California and Wisconsin. By selecting and examining recent cases of working AFDC recipients in one county in each State and by analyzing available broad-based caseload data in each State (discussed on the following pages), we conclude that the income disregard provisions of the AFDC program are not fully achieving their purposes in either State. We have no reason to believe that the results of a comprehensive review of this subject in either State would be significantly different from the results indicated by our tests, which are similar to those reported by the studies we reviewed.

EFFECT OF INCOME DISREGARDS ON CALIFORNIA'S AFDC PROGRAM

Based on a statewide random sample conducted by California of its AFDC-Family Group cases receiving assistance in July 1976, the results of which were projected statewide, 59,373 of the 412,310 total AFDC-Family Group cases (14.4 percent) had some earned income in July 1976. Of the cases with earned income, about 77 percent earned less than $500

during the month. However, 1,247 cases, or about 2 percent, had earned incomes of $800 or more during this month.

To determine how recipients with earnings of $800 or more per month could continue to receive AFDC assistance, we obtained from an AFDC office in Contra Costa County a list of 32 cases which had monthly incomes ranging from $800 to $1,694. We reviewed the files of five of these cases to determine how this situation could occur. The following table shows the monthly income, the income disregards applied, and the grant amounts awarded for the five cases.

AFDC Cases with Substantial Incomes

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Income disregards					
Case	Monthly income	$30+ 1/3	Work-related expenses	Total (2)+(3)	Max. grant	Income not disregarded (1)-(4)	Grant awarded (5)-(6)
1	$1,589	$549	$ 819	$1,368	$423	$221	$202
2	1,513	524	1,018	1,542	356	0	356
3	926	329	511	840	356	86	270
4	1,156	405	238	643	543	513	30
5	835	298	316	614	356	221	135

Based on our review of the above cases, it appears that the disregard for work-related expenses was an important factor in allowing recipients to continue receiving grants. For example, in case #2, the recipient's $1,018 in work-related expenses was the primary reason she was able to disregard all of her $1,513 income and still receive a full $356 grant for herself and her two children. Her work-related expenses consisted of (1) union dues, social security, and State and Federal tax deductions totaling $439, (2) transportation expense of $359 1/, and (3) child care expenses of $220.

1/Computed based on a commute of 126 miles a day at 15 cents per mile for 19 days.

EFFECT OF INCOME DISREGARDS ON WISCONSIN'S AFDC PROGRAM

According to a State official, Wisconsin does not maintain statewide statistics on the number of AFDC recipients with earned income. However, the official said that, based on statistics obtained during the AFDC quality control reviews in Wisconsin, the percentage of recipients with earned income ranges from 23 to 28 percent of the total caseload, with the average being around 25 percent.

In addition, information obtained for November 1977 through Wisconsin's computer reporting network, whose data base contained 4,371 cases from Wood, Kenosha, and Dane Counties, showed that 1,324 or 30.3 percent of the cases had earned income. Of these, 17 had incomes between $1,000 and $1,253 per month and 1 had an income of $1,788 for the month. If this is an adequate sample to be projected statewide (State officials indicated that this has not yet been verified), 200 to 215 AFDC families in Wisconsin would have incomes between $1,000 and $1,253 a month.

To obtain more information on the effects of income disregards on Wisconsin's AFDC cases, we obtained estimates prepared by Milwaukee County of its July 1977 AFDC cases having earned income from wages (projection based on June 1977 actual data). The distribution of the cases for this period was as follows:

	Number of cases	Percent	
Total caseload	22,326	100.0	
Cases with wage income	4,569	20.5	100.0
$ 1 - $ 99	182		4.0
100 - 199	407		8.9
200 - 299	556		12.2
300 - 399	740		16.2
400 - 499	1,027		22.5
500 - 599	800		17.5
600 - 699	511		11.2
700 - 799	229		5.0
800 - 899	78		1.7
900 - 999 a/	39		.8

a/Due to computer program design, cases with earnings over $999 per month are counted in this distribution.

As indicated, 20.5 percent of the total county caseload had earned income from wages. Of the cases with earned income, 63.8 percent earned less than $500 for the month, 33.7 percent earned between $500 and $800, and 2.5 percent earned $800 or more.

We then reviewed 16 case files for families having earned income who were also receiving AFDC assistance during August 1977 as follows: 5 cases with earned income greater than $900, 3 cases with earned income between $800 and $899, and 1 case with income in each $100 strata ranging from $0 to $799. We reviewed August cases because in July 1977 the State's work-related expense deduction percentage was changed from a flat 21 percent to 18 percent of gross income. Since the 18 percent work-expense deduction did not become effective in Milwaukee County until August 1977, we believed that the August caseload would be more representative of the current situation in the county and would still be close enough to the overall statistical data obtained for July 1977.

The results of the cases reviewed are presented in the following table.

Case no.	Years on AFDC/years working	Monthly earnings	$30 + 1/3 exemption	Work-related expenses: 18%	Work-related expenses: Child care	Total exemption	Family size	Maximum grant	Non-exempt income	Grant award
1	11/6	$1,029	$363	$185	$352	$900	5	$508	$129	$379
2	4/4	1,013	358	182	276	816	3	371	197	174
3	8/4	935	332	168	-	500	8	631	435	196
4	7/5	909	323	163	100	586	6	549	323	226
5	8/5	905	322	a/208	113	643	2	315	262	53
6	8/4	844	301	152	137	590	3	371	254	117
7	5/4	837	299	151	226	676	3	371	161	210
8	19/10	836	299	150	-	449	4	442	387	55
9	9/4	788	283	142	81	506	3	371	282	89
10	1/6	656	238	b/138	231	607	5	508	48	460
11	5/4	508	189	91	100	380	2	315	128	187
12	5/5	c/500	187	90	167	444	3	371	56	315
13	1/1	339	133	61	-	194	3	371	145	226
14	14/1	203	88	37	-	125	2	315	78	237
15	10/1	100	53	18	-	71	3	371	29	342
16	8/3	80	47	14	-	61	3	371	19	352
Averages for the 16 cases:										
	7.7/4.2						3.6			

a/Itemized taxes which exceeded 18 percent of gross earnings.

b/Equals 21 percent of gross earnings because client was not timely notified of July 1977 policy change to 18 percent.

c/Rounded up from $499.97.

As shown in the table, the 16 cases remained on the AFDC rolls even though they all had monthly earnings. Case #1 shows that even though the family had earnings of $1,029 for the month of August 1977, $900 or 87 percent of this income was disregarded due to the $30 and one-third exemption plus the work-related expense deduction. Because of the disregards, this family was still able to receive an AFDC grant of $379 for the month.

As an additional analysis, we applied the current AFDC work incentive provisions to earned income in Wisconsin, assuming that work-related expenses except child care would not exceed 18 percent of monthly earned income. The following table shows for given amounts of allowable child care costs our calculation of the theoretical earned income levels at which the AFDC grant would be zero.

Monthly child care costs	Earned income amount at which AFDC grant is zero	
	Monthly	Annually
$ 0	$ 949.25	$11,391.00
100	1,154.72	13,856.58
200	1,360.18	16,322.17
300	1,565.65	18,787.76
400	1,771.12	21,253.34

Both State and Milwaukee County personnel said that the income disregard provisions have not been successful in removing recipients from the AFDC rolls. State officials are aware of this situation and indicated that other alternatives to the work incentive problem are being considered in Wisconsin which would better meet the State's program needs and would help simplify program administration, but provided no details.

LEGISLATION PROPOSED TO CHANGE INCOME DISREGARDS

The weaknesses of current AFDC income disregard provisions have been recognized by program officials and by the Congress. Some 17 bills, which in part would change the income disregard provisions, have been introduced in the 95th Congress, but final action had not been taken on any of them as of May 1978.

To determine the effect of the provisions of one of these proposals on welfare grants, we selected the provisions of the President's welfare reform proposal and applied them to selected cases in California and Wisconsin. This proposal, entitled the "Better Jobs and Income Act" (H.R. 9030 and S. 2084), was introduced on September 12, 1977, to consolidate three existing Federal welfare programs--AFDC, Supplemental Security Income, and Food Stamps--into one cash assistance program and to provide for public service jobs if private ones could not be found. Current income disregard provisions would be replaced by a comprehensive program requiring that able-bodied recipients work and providing new financial work incentives. 1/

The proposed income disregards vary as described below: 2/

For family units expected to work

--a basic monthly disregard of $316.67 (however, there is an offsetting grant reduction of $158.34);

--child care costs for family units with children under age 14, limited to $150 a child per month and $300 a family unit per month; and

--50 percent of earned income in excess of the basic disregard and child care costs described above.

For family units not expected to work

--child care costs as described above and

1/Basically, work would be required of able-bodied recipients who do not have to care for dependents. For example, the adult in a single-parent family with a child under age 7 would not be required to work, whereas an adult in a single-parent family with no dependents under age 7 would have to register for and accept work or training if it were available to avoid a grant reduction.

2/These are the disregards for recipients receiving Federal benefits only. In States which supplement Federal benefits, recipients' grants may be reduced by increased percentages of earned income--by not more than 70 cents on the dollar for those not expected to work and not more than 52 cents on the dollar for those expected to work.

--50 percent of earned income in excess of child care costs.

To determine the potential impact of the welfare reform income disregards, we applied them to the five substantial income cases we reviewed in Contra Costa County, California. In our analysis, we assumed that (1) the 1-month income used as a basis for computing current income disregards would be the average for the proposed 6-month retrospective accounting period, (2) the State would supplement the proposed Federal benefit levels to current AFDC grant levels, and (3) the State would allow a 50 percent income disregard rate. We found that none of the cases would receive grants under the proposed Better Jobs and Income Act. The elimination of work-related expenses as a disregard was a significant factor in eliminating the grant awards.

We also applied the welfare reform income disregard provision to 26 other current Contra Costa County AFDC cases which generally had more moderate monthly incomes--an average of $540. As a result, recipient grants were reduced in 21 cases, eliminated in 4, and remained the same in 1. The 26 grants were reduced an average of $83 each. In the nine cases where the grant was reduced by $100 or more, the average gross income was $76 more and work-related expenses were $97 higher than the average.

In addition to eliminating the grants to AFDC recipients with substantial incomes, it appears that the proposed welfare reform legislation would reduce the grants of those with more moderate incomes. Further, the reduction in grants would be greater for those recipients who claim higher work-related expenses.

We also applied the welfare reform income disregards to the 16 cases selected in Milwaukee County, Wisconsin, under the same assumptions used for the California cases. As a result, recipient grants were reduced by about $24 to $311 in 15 cases, and eliminated in 1 case. As in the California cases, the elimination of work-related expenses as a disregard was a significant factor in eliminating the grant award in the one case.

As can be seen, recipients have legally remained on welfare while earning substantial incomes, largely because of the combined effect of these two income disregard provisions.

APPENDIX I

CHANGES IN WISCONSIN'S AFDC CASELOAD BETWEEN CALENDAR YEARS 1966 AND 1976 COMPARED WITH ALL OTHER JURISDICTIONS

Jurisdiction	(1) Average monthly caseload for 1966	(2) Average monthly caseload for 1976	(3) Increase/ (decrease) (2) - (1)	(4) Percentage increase/ (decrease) (3) ÷ (1)
New Hampshire	1,214	8,600	7,386	608
South Carolina	6,667	45,200	38,533	578
District of Columbia	4,757	31,200	26,443	556
Guam	148	900	752	508
WISCONSIN	11,239	64,400	53,161	473
Michigan	37,881	208,100	170,219	449
Virginia	11,271	59,300	48,029	426
Indiana	11,239	57,900	46,661	415
Oregon	8,386	40,400	32,014	382
Hawaii	3,525	16,600	13,075	371
Vermont	1,531	7,200	5,659	370
New Jersey	29,043	136,100	107,057	369
Texas	21,799	102,000	80,201	368
Georgia	21,097	94,100	73,003	346
Arkansas	7,650	33,600	25,950	339
Illinois	53,189	229,300	176,111	331
Ohio	44,867	189,800	144,933	323
Massachusetts	27,638	116,400	88,762	321
Maine	5,158	19,900	14,742	286
Nevada	1,379	5,000	3,621	262
Delaware	2,903	10,200	7,297	251
Washington	14,159	49,300	35,141	248
Virgin Islands	321	1,100	779	243
Missouri	25,999	88,800	62,801	242
Pennsylvania	58,121	198,000	139,879	241
Tennessee	20,573	68,600	48,027	233
Connecticut	12,913	42,500	29,587	229
Maryland	21,973	72,300	50,327	229
Kansas	8,357	26,500	18,143	217
Alabama	17,179	53,000	35,821	208
Kentucky	21,228	65,500	44,272	208
Minnesota	14,461	44,600	30,139	208

APPENDIX I

APPENDIX I

Jurisdiction	(1) Average monthly caseload for 1966	(2) Average monthly caseload for 1976	(3) Increase/ (decrease) (2) - (1)	(4) Percentage increase/ (decrease) (3) ÷ (1)
Montana	2,085	6,400	4,315	207
Alaska	1,305	3,900	2,595	199
California	159,706	468,100	308,394	193
Iowa	11,083	31,000	19,917	180
Rhode Island	6,252	17,000	10,748	172
Louisiana	24,684	67,000	42,316	171
New York	140,064	373,000	232,936	166
North Carolina	25,971	68,800	42,829	165
Mississippi	20,833	54,000	33,167	159
Colorado	12,500	32,200	19,700	158
Idaho	2,601	6,700	4,099	158
South Dakota	3,262	8,300	5,038	154
Nebraska	4,646	11,600	6,954	150
Florida	31,823	78,500	46,677	147
New Mexico	7,600	18,400	10,800	142
Utah	5,500	12,600	7,100	129
North Dakota	2,036	4,600	2,564	126
Wyoming	1,125	2,400	1,275	113
Arizona	9,665	19,200	9,535	99
Oklahoma	19,770	28,000	8,230	42
West Virginia	21,906	21,800	(106)	(.5)
Puerto Rico	45,134	43,900	(1,234)	(3)
Average-all	1,087,532	3,563,500	2,475,968	228

COMPARISON OF WISCONSIN'S CHILD SUPPORT COLLECTIONS WITH OTHER STATES IN HEW REGION V

AFDC dollar collections fiscal year 1977

State	Rank (note a)	First quarter	Second quarter	Third quarter	Fourth quarter	Total
		(thousands)				
Michigan	1	$14,216	$16,027	$17,119	b/$17,000	$64,362
Ohio	7	4,946	3,939	5,643	4,942	19,470
Wisconsin	8	4,313	4,237	5,278	5,554	19,382
Minnesota	10	2,632	2,956	2,778	2,917	11,283
Indiana	13	1,757	1,887	2,130	2,047	7,821
Illinois	14	1,542	1,867	2,241	2,134	7,784

Number of AFDC cases collected on

	First quarter	Second quarter	Third quarter	Fourth quarter
Michigan	54,160	54,160	56,769	b/56,000
Ohio	56,561	33,092	52,333	47,227
Wisconsin	14,467	13,522	14,263	17,444
Minnesota	12,163	14,723	14,804	16,059
Indiana	(c)	(c)	(c)	(c)
Illinois	18,000	b/18,600	22,300	b/21,200

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a/National ranking by total AFDC child support collections.

b/Estimate.

c/Information not available.

GAO note: Because the HEW statistics did not show the total number of child support orders and their dollar amounts outstanding as of fiscal year 1977, a State's collection performance cannot be evaluated.

Source: HEW's Office of Child Support Enforcement

APPENDIX III

WISCONSIN PARENT LOCATOR SERVICE - NUMBER OF REQUESTS RECEIVED FROM COUNTIES AND OTHER STATES BY MONTH FOR 1976 AND 1977

Month	1976	1977
January	324	450
February	581	685
March	362	497
April	380	251
May	483	235
June	328	462
July	402	324
August	393	324
September	369	214
October	437	246
November	569	286
December	523	293
Total	5,151	4,267

GAO note: Wisconsin sent 256 requests to the Federal Parent Locator Service in 1976 and 2,908 in 1977.

APPENDIX IV

AFDC CASES WITH ERRORS
AS A PERCENT OF TOTAL CASES
JANUARY-JUNE 1977

Rank (note a)	Jurisdiction	Percent			
		Total cases with errors (note b)	Ineligible cases	Overpaid cases	Underpaid cases
1	Nevada	1.3	-	1.3	-
2	No. Dakota	3.7	.6	2.5	.6
3	Indiana	6.9	.9	4.5	1.5
4	Texas	11.1	3.9	6.4	.9
5	Oklahoma	12.3	2.9	6.3	3.1
6	West Virginia	12.6	3.2	7.4	2.0
7	Utah	13.0	1.6	7.2	4.2
8	California	13.9	1.2	8.4	4.2
9	Colorado	13.9	2.1	8.5	3.3
10	Kentucky	14.5	4.8	7.7	2.0
11	New Mexico	14.7	2.7	5.9	6.0
12	Washington	14.9	4.8	7.2	2.9
13	Florida	15.4	4.4	8.7	2.2
14	Alabama	15.9	4.9	6.1	4.9
15	Connecticut	16.7	4.9	7.4	4.4
16	Louisiana	16.8	5.5	8.6	2.7
17	So. Dakota	17.0	2.0	12.4	2.6
18	Minnesota	17.2	3.6	9.0	4.6
19	Tennessee	17.3	6.3	7.0	4.0
20	WISCONSIN	17.7	2.6	10.6	4.5
21	Ohio	18.5	7.8	8.8	2.0
22	Nebraska	18.6	5.6	7.6	5.3
23	Rhode Island	18.9	5.6	8.6	4.7
24	Wyoming	19.2	6.4	10.4	2.4
25	Georgia	19.3	7.9	8.7	2.7
26	Idaho	19.3	1.7	14.2	3.4
27	Virgin Islands	19.3	6.0	8.7	4.7
28	Kansas	19.5	5.1	10.8	3.7
29	Mississippi	19.7	6.8	8.2	4.7
30	Virginia	19.7	4.2	11.5	4.0
31	Missouri	20.1	5	10.7	3.6
32	Arkansas	21.4	6.8	9.3	5.3
33	New Jersey	21.9	3.1	14.3	4.5
34	So. Carolina	22.0	4.4	12.5	5.1
35	No. Carolina	22.1	3.5	13.4	5.3
36	New Hampshire	24.4	3.9	15.3	5.1

Rank (note a)	Jurisdiction	Percent: Total cases with errors (note b)	Ineligible cases	Overpaid cases	Underpaid cases
37	Maine	25.4	6.8	15.5	3.?
38	Arizona	25.5	8.4	14.3	2.8
39	Puerto Rico	25.5	6.1	14.3	5.1
40	Oregon	25.9	2.7	16.3	6.9
41	Iowa	26.6	5.1	15.4	6.2
42	Massachusetts	27.2	8.4	14.9	3.8
43	Montana	27.3	5.2	14.4	7.8
44	Michigan	27.7	4.6	16.2	6.9
45	Delaware	28.5	8.5	10.1	9.9
46	Vermont	29.9	6.3	14.0	9.6
47	Pennsylvania	30.4	6.0	19.3	5.0
48	Maryland	31.7	9.2	14.4	8.0
49	Alaska	32.7	13.4	11.5	7.8
50	Illinois	33.6	13.5	17.3	2.8
51	Hawaii	37.2	10.0	20.7	6.4
52	New York	38.9	6.2	20.3	12.4
53	District of Columbia	45.6	11.7	26.2	7.8
	Average-all	22.9	5.4	12.5	5.0

a/Ranking based on percent of total cases with errors.

b/The total does not always equal the sum of the columns due to rounding.

Source: HEW's Social Security Administration, Office of Quality Assurance.

APPENDIX V

ERRONEOUS PAYMENTS AS A PERCENT OF TOTAL AFDC PAYMENTS JANUARY-JUNE 1977

Rank (note a)	Jurisdiction	Percent			
		Payments to ineligibles and overpayments (note b)	Payments to ineligibles	Over-payments	Under-payments
1	Nevada	.6	-	.6	-
2	No. Dakota	.9	.7	.2	.1
3	Indiana	1.9	.7	1.1	.2
4	Utah	2.0	.7	1.3	.6
5	California	3.5	1.0	2.5	.6
6	Idaho	3.9	1.1	2.8	.4
7	New Mexico	4.1	2.3	1.8	1.0
8	Oklahoma	4.1	2.1	2.0	.8
9	West Virginia	4.5	2.9	1.6	.4
10	WISCONSIN	4.7	3.1	1.6	.6
11	Colorado	4.8	1.5	3.3	.9
12	Nebraska	4.8	2.9	1.9	1.0
13	So. Dakota	5.3	1.4	3.9	.6
14	Alabama	5.4	3.4	2.0	1.2
15	Minnesota	5.8	3.5	2.3	.6
16	Rhode Island	5.8	3.7	2.1	.7
17	No. Carolina	6.0	2.6	3.3	1.1
18	Texas	6.0	3.4	2.6	.2
19	Connecticut	6.3	4.3	2.0	.8
20	Oregon	6.3	2.0	4.3	.6
21	New Hampshire	6.7	3.7	3.0	.4
22	Virgin Islands	6.7	3.6	3.0	1.5
23	Florida	7.0	4.3	2.8	.6
24	Washington	7.1	5.6	1.5	.4
25	New Jersey	7.2	2.4	4.7	.8
26	Tennessee	7.2	5.2	2.1	1.3
27	Kentucky	7.3	4.5	2.8	.7
28	Mississippi	7.4	4.6	2.8	1.6
29	Virginia	7.6	3.9	3.7	1.1
30	Kansas	7.7	4.5	3.2	.6
31	So. Carolina	7.8	3.9	4.0	1.4
32	Wyoming	7.8	4.6	3.1	.6
33	Iowa	7.9	4.2	3.7	.8

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Rank (note a)	Jurisdiction	Percent: Payments to ineligibles and overpayments (note b)	Payments to ineligibles	Over-payments	Under-payments
34	Louisiana	7.9	4.3	3.6	.7
35	Vermont	8.1	5.3	2.9	.7
36	Arkansas	9.2	5.7	3.4	1.8
37	Puerto Rico	9.3	4.5	4.8	1.6
38	Missouri	9.5	4.9	4.6	.5
39	Michigan	9.6	5.0	4.6	.8
40	Delaware	10.0	6.7	3.3	1.3
41	Pennsylvania	10.4	5.5	4.8	.6
42	Georgia	10.5	7.2	3.3	1.0
43	New York	10.5	5.2	5.4	1.6
44	Ohio	10.6	8.2	2.4	.4
45	Maine	10.7	6.5	4.2	.6
46	Arizona	10.9	7.1	3.8	.6
47	Hawaii	11.3	7.9	3.5	.5
48	Maryland	12.8	9.5	3.3	2.5
49	Massachusetts	12.8	8.4	4.4	.6
50	Montana	13.3	6.8	6.6	1.5
51	Alaska	16.7	12.3	4.4	1.8
52	District of Columbia	17.9	9.1	8.8	1.5
53	Illinois	18.6	12.0	6.6	.5
	Average-all	8.6	4.9	3.7	.9

a/Ranking based on percent of total payments to ineligibles and overpayments.

b/The total does not always equal the sum of the columns due to rounding.

Source: HEW's Social Security Administration, Office of Quality Assurance.

INFORMATION ON WISCONSIN'S AFDC PROGRAM

RECIPIENT ELIGIBILITY

The State Department of Health and Social Services has established the criteria and the process for determining eligibility for Aid to Families with Dependent Children. Each county can, at its option, determine eligibility based on the applicant's statements if they seem credible or require verification against applicant-supplied documents or information from other sources. State officials could not identify which counties used which method. Under either method, the county agency usually has 30 days to process the application and either approve or deny aid.

The Milwaukee County Board of Supervisors passed a resolution in 1973 requiring use of the verification method. An applicant must produce such documents as social security cards, birth certificates, marriage certificates, bank books, health insurance cards, mortgage payment books, etc., to support initial eligibility. Clients with earned income are required to submit earnings statements by the tenth of each month.

We sampled 25 cases receiving assistance as of August 1977 in Milwaukee County and noted the files contained the required documents or had notations that they had been reviewed. In one case where a bank account had been reported, the caseworker verified the balance. Clients with reported earned income were submitting earnings statements as required.

Redeterminations

At least every 6 months after initially being determined eligible, or when family circumstances change, each recipient must complete another application for aid as part of the eligibility "redetermination" process. The county agency processes this application in the same way as the initial one, except that verification is limited to financial or other eligibility factors which have changed since the last determination. A recipient's moving to another county is one change that should trigger a redetermination.

Wisconsin law requires a caseworker to visit an applicant's home as part of the original eligibility determination but not for redeterminations. Recent State legislation, however, does require caseworkers to recertify in person the eligibility of 10 percent of the recipients every 6 months.

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DETERMINING PAYMENTS

County personnel analyze applications for both initial determinations and redeterminations to establish eligibility and financial need. The client's budgetable income (gross income less disregarded income) is compared with an assistance or need standard based on family size to determine the grant amount. The need standard, the amount considered necessary to cover the cost of essential items, such as food, clothing, shelter, and utilities, varies among counties. For a family of four, for example, the current standard ranges from $478 to $520 a month. The maximum AFDC grant in Wisconsin is limited to the State payment standard, currently 85 percent of its need standard.

RECIPIENT OBLIGATIONS AND RIGHTS

Recipients must notify the county within 10 days of any change in circumstances which affects their eligibility or grant amount. Willful failure to report changes constitutes fraud under State law.

Applicants and recipients have the right to appeal any action which denies, terminates, or reduces a grant. When the county agency takes such an action, the person must be told the specific reasons and informed of his right to request a fair hearing. A recipient must be notified of the action 10 days before it becomes effective.

REDUCING ERRONEOUS PAYMENTS

Erroneous payments are a major nationwide problem in the AFDC program. Some recipients are ineligible; others get too much or too little. To combat the problem, HEW requires States to implement a quality control system to

--monitor and report on the eligibility of recipients and the correctness of payments and

--identify corrective actions needed to keep error rates at acceptable levels.

The current quality control program, which began in 1973, requires States to file semiannual reports on the correctness of payments and corrective action plans with HEW.

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The quality control program identifies errors according to two features--responsibility and area of determination. Errors are considered to be the responsibility of clients when AFDC recipients or applicants provide incomplete or inaccurate information or fail to notify their caseworkers of changed circumstances. Agency errors result from either the agency's misapplication of policy or its failure to act promptly on client-supplied information. Errors are also classified according to 45 aspects of determination, grouped under 5 categories--basic eligibility requirements (e.g., family composition), resources, income, grant or need determination, and other (e.g., computational errors).

As shown in the following table, Wisconsin reduced its overall AFDC case error rate from 35.7 percent in the April-September 1973 reporting period to 17.7 percent for the first half of 1977. During the same period, the national case error rate decreased from 41.1 percent to 22.9 percent.

Cases with Errors as a Percent of Total Cases (note a)

Reporting period	Ineligible		Overpaid		Underpaid		Total	
	Nat'l	Wis.	Nat'l	Wis.	Nat'l	Wis.	Nat'l	Wis.
Apr.-Sept. 1973	10.2	4.7	22.8	14.5	8.1	16.5	41.1	35.7
Jan.-June 1974	9.3	5.8	20.6	13.4	8.0	15.7	37.9	34.9
July-Dec. 1974	8.5	5.1	19.7	15.7	8.2	14.4	36.4	35.2
Jan.-June 1975	7.5	2.9	17.5	15.0	7.3	13.5	32.3	31.4
July-Dec. 1975	6.4	1.7	14.7	9.7	5.6	8.3	26.7	19.7
Jan.-June 1976	5.5	1.9	13.9	9.9	5.2	6.0	24.6	17.8
July-Dec. 1976	5.0 (5.3)	2.1 (2.6)	12.5 (13.1)	10.8 (10.8)	4.8 (4.9)	5.3 (5.8)	22.3 (23.2)	18.2 (19.1)
Jan.-June 1977	5.0 (5.4)	2.6 (2.6)	12.0 (12.5)	9.8 (10.6)	4.9 (5.0)	4.5 (4.5)	21.9 (22.9)	16.9 (17.7)

a/These are the error rates as reported by the States. The figures will not necessarily agree with the official HEW error rates which are computed by a statistical regression method. For the periods July-December 1976 and January-June 1977, official HEW error rates are shown in parentheses.

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The distribution of responsibility for errors remained the same in Wisconsin. During 1974 and for the first half of 1977, 61 percent of the errors were agency-caused. In contrast, the distribution of errors among the five categories of determination changed significantly. For example, errors in determining need accounted for 51 percent of Wisconsin's AFDC errors in the 1973 base period. In the first half of 1977 the need area accounted for less than 1 percent of the errors. Details of the shifts among the categories are shown below.

Errors in Selected AFDC Cases

Reporting period	Basic eligibility	Resources	Income	Need	Other	Total
Apr.-Sept. 1973	24	35	180	257	7	503
Jan.-June 1974	32	59	136	211	23	461
July-Dec. 1974	36	49	124	220	11	440
Jan.-June 1975	50	11	132	206	5	404
July-Dec. 1975	42	3	135	51	14	245
Jan.-June 1976	46	8	161	4	12	231
July-Dec. 1976	41	7	162	1	7	218
Jan.-June 1977	52	11	131	1	9	204

In addition to considerably reducing its case error rates, Wisconsin also reduced its overall payment error rate (percent of total payments made to ineligibles and overpayments to eligibles) from 6.1 percent in 1973 to 4.7 percent for the first half of 1977. During the same period, the national payment error rate decreased from 16.0 percent to 8.6 percent. The following table shows the change in Wisconsin's payment error rate compared to the nationwide rate.

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Payment Errors as a Percent of Total Payments (note a)

Reporting period	Ineligible		Overpaid		Underpaid		Ineligibles and overpaid	
	Nat'l	Wis.	Nat'l	Wis.	Nat'l	Wis.	Nat'l	Wis.
Apr.-Sept. 1973	8.9	3.8	7.1	2.3	1.4	1.9	16.0	6.1
Jan.-June 1974	8.2	5.9	6.6	2.1	1.5	1.7	14.8	8.0
July-Dec. 1974	7.4	5.1	6.2	2.6	1.5	1.7	13.6	7.7
Jan.-June 1975	6.6	2.6	5.4	2.3	1.3	1.7	12.0	4.9
July-Dec. 1975	5.5	1.4	4.7	2.0	1.0	1.3	10.2	3.4
Jan.-June 1976	4.8	1.2	4.3	2.2	.9	1.0	9.1	3.4
July-Dec. 1976	4.4 (4.6)	1.8 (2.1)	3.7 (3.9)	2.0 (1.8)	.8 (.9)	.8 (1.1)	8.1 (8.5)	3.8 (3.9)
Jan.-June 1977	4.4 (4.9)	2.6 (3.1)	3.6 (3.7)	1.8 (1.6)	.9 (.9)	.7 (.6)	8.0 (8.6)	4.4 (4.7)

a/These are error rates as reported by the States. The figures will not necessarily agree with the official HEW error rates which are computed by a statistical regression method. For the periods July-December 1976 and January-June 1977, official HEW error rates are shown in parentheses.

HEW statistics show that Wisconsin's estimated erroneous payments to AFDC recipients for the period January-June 1977 were about $5.7 million (about $3.7 million to ineligibles and about $2 million in overpayments to eligibles). During this period, Wisconsin's total AFDC payments were $121.8 million.

In comparison, during the January-June 1977 period, New York misspent approximately $81.2 million ($39.9 million to ineligibles and $41.3 million in overpayments) of its $771.1 million total expenditures and California misspent about $29.4 million ($8.1 million to ineligibles and $21.3 million in overpayments) of its $838.6 million total expenditures. Nevada, which had the lowest payment error rate for the period, erroneously spent about $22,000 in overpayments (none to ineligibles) of its $4 million total expenditures. Illinois, which had the highest payment error rate for the period, misspent

about $66.1 million ($42.7 million to ineligibles and $23.4 million in overpayments) of its $356.4 million total expenditures. (See app. V for payment error rates of all jurisdictions.)

Actions taken to reduce errors

Wisconsin has taken four major corrective actions since 1973, the effectiveness of which have reduced its case error rate from 35.7 percent in the 1973 base period to 17.7 percent during the January-June 1977 period. However, a State can take corrective actions which reduce its case error rate but which may or may not reduce the dollar amounts spent in error. All four of the corrective actions taken by Wisconsin involve policy changes which simplified procedures. These corrective actions probably also contributed to the reduction in Wisconsin's payment error rates.

In March 1974 Wisconsin approved a flat deduction from income of 21 percent to cover work-related expenses. This policy was instituted because the determination of actual work-related expenses accounted for about 10 percent of the payment errors in the first half of 1974. Most of these errors were attributable to the agency.

The change reduced errors associated with work-related expenses by half. Because the new policy generally reduced underpayments also, State officials estimated that monthly expenditures increased by $14,000.

In February 1975 Wisconsin raised the maximum assets that a family can have before being ineligible for welfare from $300 to $1,500 and revised its automobile policy to allow a second vehicle to be exempted from assets if it is verified as essential for employment.1/ The State revised these two policies because most eligibility errors were due to them.

Following these policy changes, eligibility errors decreased and the number of recipients naturally increased. Eligibility errors due to excessive assets and auto policy violations dropped from 3.9 percent of cases during the July-December 1974 period to 0.8 percent in the next 6 months. The number of cases increased from 50,640 to 54,290

1/Another revision, effective July 1, 1977, allows one or more vehicles to be exempted, but all must be justified.

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in the 3 months following implementation of the new policies, due both to these changes and to worsening economic conditions. State officials estimated monthly reductions of $465,000 in payments to ineligible recipients--who became eligible under the new policies.

In September 1975 Wisconsin enacted a flat grant, based on family size, for the need standard. Previously, over half of the payment discrepancies could be attributed to computing need components such as allowances for shelter, fuel and utilities, and water and sewer.

The flat grant produced a 37-percent reduction in errors. The case error rate of 31.4 percent in the first half of 1975 dropped to 19.7 percent in the second half. State officials estimated yearly "savings" of $3 million in overpayments and payments to ineligibles. These savings were obscured by a legislated increase in the need standard as of August 1975.

Wisconsin has taken other actions which have not yet demonstrably reduced error rates. For example, in July 1977 the Department of Health and Social Services underwent a major reorganization which created three new program sections.

--The Program Training and Interpretation Section, which is to provide uniform interpretation of State income maintenance policies when caseworkers phone in questions. This section will also train county personnel in State income maintenance policies and procedures.

--The County Monitoring Section, which is to monitor the implementation of State policies and procedures in county offices, take corrective actions, and advise the State of policy matters needing correction.

--Performance review teams, which are to evaluate each county agency once every 2 years.

Plans to reduce agency-caused errors

The major action planned to reduce agency-caused errors is the development of an online computer system for use in managing Wisconsin's income maintenance programs. Known as the computer reporting network, it will automatically determine a client's eligibility and benefits in the AFDC, medical assistance, and food stamp programs at initial application and at the time of redetermination. The system will provide

equal treatment for clients statewide by consistently applying rules, regulations, and policies to information supplied by the client.

The application form will collect the necessary information to determine a client's eligibility and benefits for all three income maintenance programs. After the client completes the form and is interviewed by the caseworker, information from the combined application will be entered on a video terminal connected to the data center in Madison. Numerous computer checks will insure the information's integrity. The computer's determination of a benefit will then be transmitted back to the county terminal.

The system will generate monthly medical assistance cards, AFDC checks, and food stamp authorizations. Additionally, the system will issue letters to clients explaining their eligibility or ineligibility and changes in their benefit level.

Wisconsin's progress in developing the system has been:

--The development of computer software in 1975 to automatically compute eligibility and benefits.

--The development and statewide implementation in 1975-1976 of the combined application form along with supporting worksheets.

--The development, as an interim measure in 1976, of comprehensive procedure handbooks which instruct caseworkers in using the information on the combined application form to determine a client's eligibility and benefits for Wisconsin's income maintenance programs. The handbooks are being used in counties that do not yet have the system.

--The implementation of the system in three test counties in 1976-1977.

--The selection of the equipment and vendors in 1977 for statewide implementation of the system.

As of December 31, 1977, Wisconsin had spent about $1.2 million to develop and operate the system. The State estimates that operation of the system will cost about $1.7 million

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annually when implemented statewide but should produce annual savings of over $3 million for the AFDC program as a result of a 66-percent reduction of agency errors. The system should also reduce errors in the medical assistance and food stamp programs.

In the spring of 1978 Wisconsin plans to begin programming and testing a system component connected to the Madison data center. After the system is tested and proven in four pilot counties, Milwaukee County will receive the equipment and implement the system late in 1978. Implementation in the remaining 67 counties will depend on results of further testing. A State official expects full implementation by late 1980.

Plans to reduce client-caused errors

To reduce errors caused by a client's failure to report changes in circumstances, Wisconsin intends a pilot study of the "Colorado Plan" in Milwaukee County in late 1978. This plan requires AFDC recipients to report their income, household composition, and other relevant factors on a monthly status report provided by the agency. Recipients failing to submit the monthly form will not receive benefit checks.

Wisconsin officials estimated that statewide implementation of the "Colorado Plan" planned for late 1980, could reduce the number of cases containing errors by about 6.5 percent. They said that if the Milwaukee County study is successful, the plan will be implemented in conjunction with the computer reporting network.

PROCEDURES FOR CORRECTING UNDERPAYMENTS

Wisconsin's procedures provide for the correction of prior underpayments made to recipients through retroactive payments covering underpayments which occurred during the 12 months preceeding the month in which the underpayment is discovered. When the retroactive payment is made to the recipient, the county welfare agency must also provide an explanation to the recipient as to why the additional payment is being made. Underpayments can occur when (1) a child is omitted from the grant, (2) the county welfare agency fails to adjust the recipient's grant due to changes in recipient circumstances, or (3) the county welfare agency fails to use the correct amount of the family allowance when determining the grant amount.

APPENDIX VII

WORKLOAD DATA OF THE MILWAUKEE COUNTY FRAUD SQUAD FROM JUNE 1963 THROUGH DECEMBER 1977

Year	Complaints received	Complaints investigated	Cases of fraud substantiated	Amount of fraud uncovered
1963	337	226	100	$ 20,625
1964	479	435	220	113,780
1965	404	430	168	106,293
1966	383	387	111	55,290
1967	354	291	114	79,004
1968	509	361	83	61,697
1969	684	400	106	84,129
1970	612	570	[illegible]	142,697
1971	1,033	582	253	242,637
1972	950	647	190	354,731
1973	1,303	412	150	322,087
1974	1,680	979	[illegible]	847,178
1975	1,679	724	314	723,379
1976	1,504	814	365	449,641
1977	1,519	736	300	458,789
Total	13,490	7,994	3,052	$4,061,957

APPENDIX VIII

COLLECTION OF OVERPAYMENTS MADE BY THE MILWAUKEE COUNTY DEPARTMENT OF PUBLIC WELFARE DURING THE YEARS 1974-77 BY METHOD OF RECOVERY

Method of recovery	1974	1975	1976	1977
Cash payments:				
Client errors	$ 81,203	$161,476	$478,917	$191,633
Agency errors	229,408	148,223	185,503	177,321
Automatic grant deductions-both client and agency errors	-	35,130	200,056	274,762
Total collections	$310,611	$344,829	$864,476	$643,716

SUMMARIES OF STUDIES GAO REVIEWED RELATING TO AFDC INCOME DISREGARD PROVISIONS

This appendix contains a summary of each of the following studies we reviewed which dealt directly with the AFDC income disregard provisions.

1. A Study of the Impact of the Income Disregard: Final Report
2. Effects of a Financial Incentive on AFDC Employment: Michigan's Experience between July 1969 and July 1970
3. Welfare Work Incentives-The Earnings Exemption and Its Impact upon AFDC Employment, Earnings, and Program Costs
4. The Effects of Changes in the AFDC Program on Effective Benefit Reduction Rates and the Probability of Working
5. Effects of the Earnings Exemption Provision upon the Work Response of AFDC recipients

APPENDIX IX

A STUDY OF THE IMPACT OF THE INCOME DISREGARD: FINAL REPORT

Prepared by InterStudy
November 1975

STUDY OBJECTIVES

The objectives were to (1) measure the impact of the AFDC income disregard provisions on employment and earnings of AFDC recipients and on caseloads and costs and (2) analyze AFDC caseload dynamics in general over a substantial period of time.

METHODOLOGY

The data base used was developed from records of a sample of 8,000 AFDC cases which entered or reentered the AFDC rolls during the first quarter of each year in Erie and Onondaga Counties, New York, for the study period 1965-72.

Erie and Onondaga Counties were selected because they met the basic requirements needed to adequately conduct this study. Among the requirements were that the State chosen had to have an AFDC-Unemployed Fathers program and was not to have had an income disregard policy before implementation of the 1967 Social Security Amendments (the $30 and one-third earnings exemption). Also, the sites chosen had to have (1) reasonably stable economic conditions, (2) stable AFDC administrative policies and practices, and (3) somewhat typical demographic characteristics of the AFDC population. Erie and Onondaga Counties were the two sites in New York which best met these requirements.

The employment and welfare status of each case was noted at 6-month intervals from year of entry through January 1973. The longitudinal design of the data base permitted an evaluation of the welfare and employment behavior of AFDC recipients for a substantial period of time before and after implementation of the income disregard policy as well as an analysis of general caseload dynamics.

The study examined the limitations of related studies and concluded that this study needed to (1) isolate the impact of any changes in benefit levels upon employment, earnings, and caseloads and (2) control for demographic variables, labor-market variables, and the impact of related policies and programs.

FINDINGS

Change in employment

In Erie County, a general increase in employment rates of AFDC mothers occurred following implementation of the income disregard provisions. The regression analysis 1/ indicated a generally positive impact of the disregard provisions on employment. However, the impact was statistically significant only for the first year after implementation. The overall employment rate in the county increased from 10.1 percent in the predisregard period to 12.3 percent in the postdisregard period.

The results of the analysis for Onondaga County were similar to those of Erie County. The income disregard was associated with a general trend of small increases in employment but the regression analysis indicated that the disregard itself did not appear to be responsible for a substantial part of the increase. In Onondaga County, the employment rate increased from 14.9 percent employed in the predisregard period to 18.2 percent in the postdisregard period.

Change in earnings

In Erie County, real earnings of AFDC mothers in the postdisregard period averaged $216.02 per month, an increase of $14.53 from the predisregard period. In Onondaga County, real earnings of AFDC mothers in the predisregard period averaged $234.95 per month compared to $242.77 in the postdisregard period, an increase of only about $8. In both counties, the income disregard variable was positively associated with real monthly earnings (in the regression analysis), but the association was not statistically significant.

1/ Regression analysis is a statistical technique used to measure the extent to which a change in one dependent variable is associated with a change in another independent variable.

Change in caseload and costs

The study found that the welfare caseload grew because of the income disregard policy. First, case closings due to employment actually declined because individuals could prolong their stay on welfare at higher earnings levels. Second, the AFDC program became more attractive to some families who were previously eligible but had not applied because an additional incentive was provided to them as the disregard could then be applied in determining the grant amount which resulted in their receiving higher AFDC benefits. Consequently, costs increased due to the income disregard policy because benefits were raised and caseloads were increased.

CONCLUSION

The conclusion of the study is based on a benefit-cost analysis which demonstrated that the costs of the income disregard policy far surpassed the benefits to the taxpayers resulting from increased employment. Implementation of the policy resulted in caseload costs that exceeded employment benefits by $4.8 million in Erie County and $4.2 million in Onondaga County for the 1970-72 period. Thus, the income disregard policy did not accomplish one of its primary intended objectives--that of encouraging a sufficient number of working AFDC recipients to work their way off the welfare rolls and thus provide the taxpayer with reduced welfare costs and increased benefits from earnings.

APPENDIX IX

EFFECTS OF A FINANCIAL INCENTIVE ON AFDC EMPLOYMENT: MICHIGAN'S EXPERIENCE BETWEEN JULY 1969 AND JULY 1970

Prepared by Gary Louis Appel, Ph.D.
March 1972

STUDY OBJECTIVE

The objective was to examine the income disregard provisions in Michigan in terms of the following objectives of employing those on welfare: (1) to decrease the welfare caseload, (2) to decrease the welfare cost per employed case, (3) to decrease total welfare costs, and (4) to raise the incomes of employed AFDC families at a low taxpayer cost per welfare family.

METHODOLOGY

One longitudinal set of data and two cross-sectional sets of data on active female-headed AFDC families in Michigan were drawn from the State's AFDC payroll tapes for 13 geographic areas within the State. One cross-sectional sample was drawn in July 1969 and those cases were followed to July 1970 to provide the longitudinal data. A completely new cross-sectional sample was drawn in July 1970 to measure the employment of the caseload as a whole at that time. Various sampling sizes were used in the different areas.

The geographic areas were selected using the following criteria: (1) every major metropolitan area in the State was selected, (2) three predominantly rural areas of the State were selected, and (3) Berrien County was selected because a Michigan Department of Social Services employment project was in progress.

The cross-sectional sample sizes were 4,660 families for July 1969 and 7,656 for July 1970. The longitudinal sample, which began with 4,660 families in July 1969, contained 3,831 in July 1970. The remaining 829 families were lost as active cases because they moved from a sample area or got off welfare.

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In determining how employment rates changed because of the income disregard, the researcher realized that these rates could have been affected by factors other than the work incentive. Therefore, he attempted to isolate, as far as possible, the following variables: (1) demographic characteristics of those on welfare, (2) welfare program variables, and (3) outside factors.

FINDINGS

Change in employment

The data collected revealed that there was a statistically significant increase in the AFDC recipient employment rates in each of the 13 areas studied between July 1969 and July 1970. The increase in percent of caseload employed ranged from 3.3 percent to 9.9 percent in the 13 areas.

To determine whether employment rate increases were related to the income disregard, the researcher attempted to account for other economic variables which would affect these rates. He found that AFDC recipient employment rates increased despite a rise in the unemployment rates in the areas between 1969 and 1970. There was no clear-cut relationship between changes in employment rates for AFDC recipients and changes in employment rates for people employed in jobs likely to be filled by AFDC recipients in the Michigan areas. The study showed that there was an increase in the employment rate for AFDC recipients between 1969 and 1970 that was not accounted for by the economic variables used and thus seemed to be related to the income disregard.

Change in earnings

The study found that average AFDC recipient earnings increased in 10 of the 13 geographic areas sampled, but it was unclear whether this increase was directly related to the work incentive. The researcher found that the portion of the employed AFDC mothers earning under $100 a month fell in most areas; thus, it appears that part-time employment was not strongly encouraged by the work incentive. In most of the areas, the portion of the employed caseload earning over $300 a month increased between July 1969 and July 1970 and it appeared that this was partially attributable to the income disregard.

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In most of the areas, a substantial portion of the employed AFDC mothers earned enough to have been forced off AFDC if there were no work incentive. In one area, almost 28 percent fell in this category, while in the remaining areas the portion ranged from about 11 percent to about 21 percent.

Change in caseload

The conceptual analysis indicated that the income disregard will increase, not decrease, the AFDC caseload. Non-AFDC families will be more apt to come on welfare and AFDC families will be more likely to stay on welfare because it is financially more beneficial to do so, at least for those who work.

The data analysis supported this conceptual analysis. There was an appreciable increase in the Michigan AFDC caseload from 1969 to 1970. This increase was due primarily to an increase in the number of new cases; the number of cases closed increased slightly.

Cost of income disregard

Based on the empirical and analytical work done, short-run welfare costs probably increased as a result of the work incentive. Also, the higher welfare costs would probably continue into the future unless the earnings of AFDC mothers could be substantially increased.

CONCLUSIONS

The study was intended to provide evidence concerning the effect of work incentives on welfare employment and earnings. The researcher stated that the data and analysis provide a reasonably convincing argument that the incentive has contributed to (1) increased employment of AFDC mothers in Michigan and (2) higher incomes for those employed. It appeared, however, that these two results were gained through higher welfare costs associated with larger caseloads.

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WELFARE WORK INCENTIVES - THE EARNINGS EXEMPTION AND ITS IMPACT UPON AFDC EMPLOYMENT, EARNINGS, AND PROGRAM COSTS

Prepared by Vernon K. Smith
Michigan Department of Social Services
1974

STUDY OBJECTIVES

The objectives were to (1) analyze the changes in employment rates and levels of earnings which occurred among AFDC mothers in two Michigan counties in the first year following implementation of the Work Incentive program and the earnings exemption, (2) identify those factors important in determining whether an AFDC mother was employed or not and, if employed, how much she earned, and (3) assess the impact of the earnings exemption on AFDC costs and caseloads.

METHODOLOGY

To allow for consideration of differing economic conditions, caseload composition, and administration of welfare policy between areas which might influence employment behavior, the researcher judgmentally selected Ingham and Genesee Counties.

A sampling technique was utilized in which the sample was stratified by the employment status of the AFDC mother at the beginning and end of the study period. The beginning date was July 1, 1969, and the ending date was July 1, 1970. Observations made for July 1, 1969, reflect the case status in June 1969 and so may be interpreted as indicating case status before the July 1, 1969, implementation date of the $30 and one-third earnings exemption in Michigan. The second observation point reflects the case status during June 1970.

The total sample of 1,184 female-headed AFDC cases studied for the two counties (735 from the Genesee County caseload and 449 from the Ingham County caseload) was obtained from the Michigan Department of Social Services payroll listings of all cases receiving assistance on July 1, 1969, and July 1, 1970. First, all 358 single-parent AFDC cases with gross monthly earnings of $1 or more for June

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1969 were chosen. Second, a random sample of 496 cases was drawn from the list of cases reporting zero gross earnings during that month. The remaining 330 cases were taken from the payroll listing of 4,156 cases which received AFDC assistance on July 1, 1970, but not in June 1969.

The data used for each sample case selected was obtained from the historical records maintained in individual case files located in county offices of the Michigan Department of Social Services.

To determine the significance of the changes in employment which occurred over the 1-year study period, the researcher compared them with changes in employment status which occurred in each of the 2 previous years. For this comparison, historical employment data were obtained for all recipients in the sample who were receiving AFDC assistance on July 1, 1969 (854 cases). The estimates made for the 2 previous years were based solely on data obtained from the case files of those receiving AFDC assistance on July 1, 1969.

Regression analysis was also used to assess the impact of demographic and economic factors upon employment and earnings.

FINDINGS

Change in employment

The study found that compared to the 2 previous years, recipients employed at the beginning of the study period were as or more likely to remain employed and recipients not employed at the beginning of the study period were more likely to become employed. Without controlling for other factors which might have influenced these changes in employment behavior, the data appeared to indicate that a positive work incentive effect occurred among AFDC mothers over the study period.

To evaluate the extent to which the increase in AFDC recipient employment might be attributed to the incentive or increased employment effect of the earnings exemption, several factors which might also have affected employment activity were examined for their impact. These factors included a retention effect (the retention on welfare of AFDC mothers who, except for application of the earnings

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exemption, would have been financially ineligible for AFDC), the Work Incentive program, the increasing "employability" of an increasing caseload, higher AFDC and food stamp benefits, and economic and labor market conditions.

After taking these factors into consideration, the study concluded that the most significant factor contributing to the increase in employment of AFDC recipients over the study period was the earnings exemption. Through the retention effect, it accounted for 1.3 percentage points of the 10 percent June 1969 employment rate. In June 1970 the exemption accounted for 5.2 percentage points of the 14.1 percent employment rate. Half of the 5.2, or 2.6 percentage points, reflected the retention effect, an increase over the year of 1.3 percentage points. The remaining 2.6 percentage points reflected an incentive or increased employment effect. Accordingly, the earnings exemption accounted for 3.9 of the 4.1 percentage point net increase in the AFDC employment rate between June 1969 and June 1970.

The researcher also noted that paralleling the experience of the two study counties, the proportion of Michigan recipients who were employed increased in fiscal year 1970. However, even a year after implementation of the earnings exemption, the employment rate was a relatively low 14.1 percent and in the postexemption period had not exceeded 14.4 percent. This suggested that those same factors which constrained employment before the exemption's implementation continued to do so after its implementation. Both before and after the exemption, the same factors were identified as significant barriers to employment, including the presence in the home of preschool-age children, a lack of education, a lack of job experience, and poor health.

Change in earnings

The study found that:

--AFDC mothers employed at the beginning and end of the June 1969-June 1970 study period were less likely to have had an increase in monthly earnings than recipients employed at the beginning and end of each of the two previous annual periods (June 1967-June 1968 and June 1968-June 1969).

--AFDC mothers not employed at the beginning but who were employed at the end of the study period were

neither more nor less likely to have higher or lower monthly earnings levels than recipients not employed at the beginning but employed at the end of each of the two previous annual periods.

--Mothers who began receiving AFDC during and who were employed only at the end of the study period were more likely to have high levels of earnings than those who began receiving AFDC during and were employed only at the end of each of the two previous annual periods.

In summary, changes in earnings levels were more likely to be positive only among those who became new recipients during and were employed only at the end of the study period and were less likely to be positive among those receiving AFDC and employed at both the beginning and end of the study period.

Impact on caseload

The study stated that one of the predictable effects of the earnings exemption was the substantial increase in the level of income which a recipient could earn and still maintain eligibility for AFDC. For example, the researcher noted that implementation of the exemption increased from $375 to $686 the level of monthly earnings below which a family of four could remain eligible for AFDC, but above which the family became ineligible. The earnings exemption made it more difficult and unlikely for an AFDC mother to "work her way off welfare." As a result, some AFDC cases which would have been terminated due to the level of earnings remained on the rolls, a phenomenon referred to as the "retention effect."

In the two study counties, just over 20 percent of the employed AFDC mothers had actual earnings levels in June 1970 which before the implementation of the exemption would have caused them to be ineligible. Based on the study data, it was estimated that at any given time since the exemption's implementation, approximately 20 percent of employed adult recipients would have been ineligible for AFDC in the absence of the exemption. At this rate, Michigan's average monthly AFDC caseload between fiscal years 1970 and 1974 was about 1,400 higher (2.7 percent) than it would have been without the earnings exemption.

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Cost of earnings exemption

Estimates of increases in AFDC costs attributable to the earnings exemption were calculated for Michigan for each of the first 5 years the exemption was in effect. Although recipient earnings, both on the average and in the aggregate, increased substantially over this period, so also did the cost of the exemption increase. Over the 5 years the total of the net annual increases in AFDC benefits resulting from the exemption was $70 million. Thus, while the earnings exemption successfully served as an incentive for increased employment activity, it did so at a financial cost which substantially exceeded its financial benefits.

CONCLUSION

The study concluded that the earnings exemption was the primary factor in the increase in employment which occurred among AFDC mothers between June 1969 and June 1970. However, the exemption contributed to the increase in AFDC costs and caseloads which occurred after its implementation. Employed recipients were less likely to terminate from assistance due to the level of their earnings. Thus, while the exemption served to increase significantly recipient employment, it did not serve to reduce AFDC costs or to restrain the increase in AFDC caseloads.

APPENDIX IX

THE EFFECTS OF CHANGES IN THE AFDC PROGRAM ON EFFECTIVE BENEFIT REDUCTION RATES AND THE PROBABILITY OF WORKING

Prepared by Douglas L. Bendt
Mathematica, Inc.
Policy Studies Group
August 5, 1975

STUDY OBJECTIVES

The objectives were to determine the effects of the 1967 Social Security Amendments, primarily the $30 and one-third earnings disregard, on (1) the effective benefit reduction rates--the dollar change in the AFDC payment to a unit as its income changes by one dollar--and (2) the probability of AFDC mothers working.

METHODOLOGY

The data used to analyze the effects of the $30 and one-third earnings disregard came from the Department of Health, Education, and Welfare's 1967, 1971, and 1973 AFDC Surveys of Case Records. The surveys consisted of questionnaires filled out by county caseworkers whose cases were chosen in a random sample of each State's caseload in the survey month.

The sample from the surveys was restricted in two ways. First, the sample was limited to 23 States drawn from another researcher's study plus 2 States added to achieve coverage of each of HEW's 10 regions. The decision not to include all States was mainly to save cost. The criteria for selection of States were to maintain representativeness of the sample on two dimensions: (1) geographic and (2) AFDC program characteristics. Specifically, at least 1 State was selected from each of HEW's 10 regions, while also selecting States with a diversity of benefit levels and types of payment schedules. The States selected were: Alabama, California, Colorado, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Virginia, Washington, and Wisconsin.

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The second restriction was to eliminate from each sample the following units: fathers, stepfathers, or other adults besides the mother as the head; and mother heads who were receiving unemployment compensation or who were physically or mentally unable to work. These exclusions were to reduce cost, simplify analysis, avoid problems of both parents being in the work force at the same time, and avoid biases in results.

The two restrictions acted to reduce the sample from 22,960 cases in the selected States in 1973 to 5,491.

The study used regression analysis to estimate effective benefit reduction rates for each State for 1967, 1971, and 1973. The study also used a special statistical technique to estimate the probability of AFDC recipients either working or participating in the labor force.

FINDINGS

The study found that no State had an effective benefit reduction rate on earned income in 1967 which approached 100 percent. The estimates ranged from a high of 70 percent in Illinois to a low of 8 percent in Mississippi.

The study reported that by 1973, 17 of the 25 States were estimated to have lower effective benefit reduction rates on earned income. In 11 of these States, the rate in 1973 was lower than in 1971, which in turn was lower than the rate in 1967. However, the decreases in the effective benefit reduction rates on earned income cannot be entirely attributed to the introduction of the $30 and one-third rule. Increases in the credits allowed for work-related expenses or other disregards from gross income would have the same effect.

The study found that support for the hypothesis that the proportion of working AFDC mothers increased over time (primarily because of the incentive effects of the $30 and one-third rule) was not convincing. Some States showed consistent and significant increases; some showed significant decreases. In most States the effect was unclear and/or insignificant.

Of the six States that showed significant increases in the range of exempted earnings over time; only three supported the hypothesis of the proportion of working AFDC mothers rising.

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The study reported that of the States that did not show any significant decreases in the benefit reduction rate on earnings, none showed any significant increases in the proportion of AFDC mothers working. Of all the other States which showed decreases in the benefit reduction rate on earnings, only 6 States gave strong supporting evidence of increases in the proportion of AFDC mothers working.

The study indicated that these results did not warrant concluding that lower benefit reduction rates necessarily lead to increases in employment among AFDC mothers. The study stated that some AFDC mothers may not be affected by the employment incentives offered by the $30 and one-third rule due to the nature of their tastes. On the other hand, the evidence is mildly suggestive that the $30 and one-third rule did increase employment.

The study presented some moderately strong support for the hypothesis that more education increases the probability of AFDC mothers working. Strong evidence existed that children in the home--especially young children under age 6--exhibit a negative influence on the likelihood of working. Participation in a surplus commodities or a food stamp program or the receipt of unearned income (including other transfer income) exert significant negative effects on the probability of AFDC mothers working. The results also suggested that AFDC mothers living in large cities were less likely to work. Variables which represented age, race, or length of time on welfare did not show very significant or consistent effects on the probability of AFDC mothers working.

CONCLUSION

Analytical results indicated that almost everyone was better off with the $30 and one-third rule in existence; they most likely would be even better off with a larger earnings disregard and/or lower effective benefit reduction rates. However, the higher breakeven level increases the pool of eligibles thus increasing both costs and caseloads.

Empirical evidence supported the hypothesis of the effective benefit reduction rates on earnings being lowered over time. However, too many other factors were operating to allow one to conclude that the $30 and one-third rule caused these lower rates.

Weak support existed for the hypothesis that the proportion of working mothers had increased over time. It was clear that much more research needed to be done before any more changes in the AFDC program are made to insure that they have their desired effect.

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EFFECTS OF THE EARNINGS EXEMPTION PROVISION UPON THE WORK RESPONSE OF AFDC RECIPIENTS

Prepared by National Analysts, Inc.
May 1972

STUDY OBJECTIVE

The objective was to evaluate the impact of the earnings exemption provision of the Social Security Act upon the work response of AFDC recipients.

METHODOLOGY

The study report presents an evaluation of the impact of the earnings exemption provision based upon data collected during two waves of interviews with the same respondents in 12 (10 all-female 1/ and 2 all-male 2/) urban sites. During the initial interviews baseline data were gathered and a personalized introduction to the benefits of the earnings exemption provision was presented to each respondent by a National Analysts interviewer. At the time of the follow-up interview, over a year later, data concerning the knowledge of and work-related responses to the earnings exemption as well as information on other related topics, such as child care, were collected.

FINDINGS

Change in employment

There were no important differences in the percentages of men and women employed at the time of the first and second interviews, except for Los Angeles where 10 percent more of the men were working at the time of the second interview.

1/Study sites for interviewing female recipients were Chicago, Columbus (Ohio), Dallas, Indianapolis, Jersey City, Miami, New York City, Richmond (Virginia), San Francisco, and St. Louis.

2/Study sites for male recipients were Camden (New Jersey) and Los Angeles.

Slightly more than one-third of the men and about one-fourth of the women were employed at the time of each interview. In the period between interviews, 65 percent of the females and 42 percent of the males never worked.

A principal finding concerning awareness was that over half of the AFDC recipients in the sample did not recall the earnings exemption provision at the time of the second interview, despite the explanation in the first interview and the passage of another year under the provision. Of those who indicated they were acquainted with the provision, most did not understand its application to their personal situation. Few could verbalize specific financial aspects of the earnings exemption. Moreover, the number of misconceptions and irrelevant ideas about it almost equaled the amount of accurate knowledge.

There was no real indication that those who recalled hearing of the earnings exemption provision found work more often than those who did not recall hearing of it. However, more among those who had heard of the provision said they had sought work than among those who had not heard of it. Also, there were no notable differences in enrollment in school or job-training programs as preparation for work between those who were aware and those who were not aware of the earnings exemption.

Regarding work attitudes, the majority of those interviewed rated work favorably--with the exception of wages, which were perceived to be low. Respondents expressed a less favorable attitude toward welfare--only a small percentage of the women and almost none of the males expressed a preference for income from welfare over income from work.

A little over a third of the men and only 12 percent of the women were enrolled in school or job-training programs during the time period between the two interviews. Only about half of those who could have completed their courses during this time period actually finished them.

Impact on caseload

At the time of their selection to the sample, all respondents were receiving welfare. By the initial interview some months later, 91 percent of the males and 94 percent of the females reported being on welfare. At the second interview, 82 percent of the males and 93 percent of the females were on welfare.

Only a minority of the men and women who worked got off welfare. Most of the working respondents continued to receive welfare while they were employed. Most often this financial aid was provided the entire time they were working.

CONCLUSION

The study concluded that, based on the responses from over 2,800 reinterviewed respondents, the earnings exemption provision did not fully achieve its major goal of moving the welfare recipients into the work force.

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